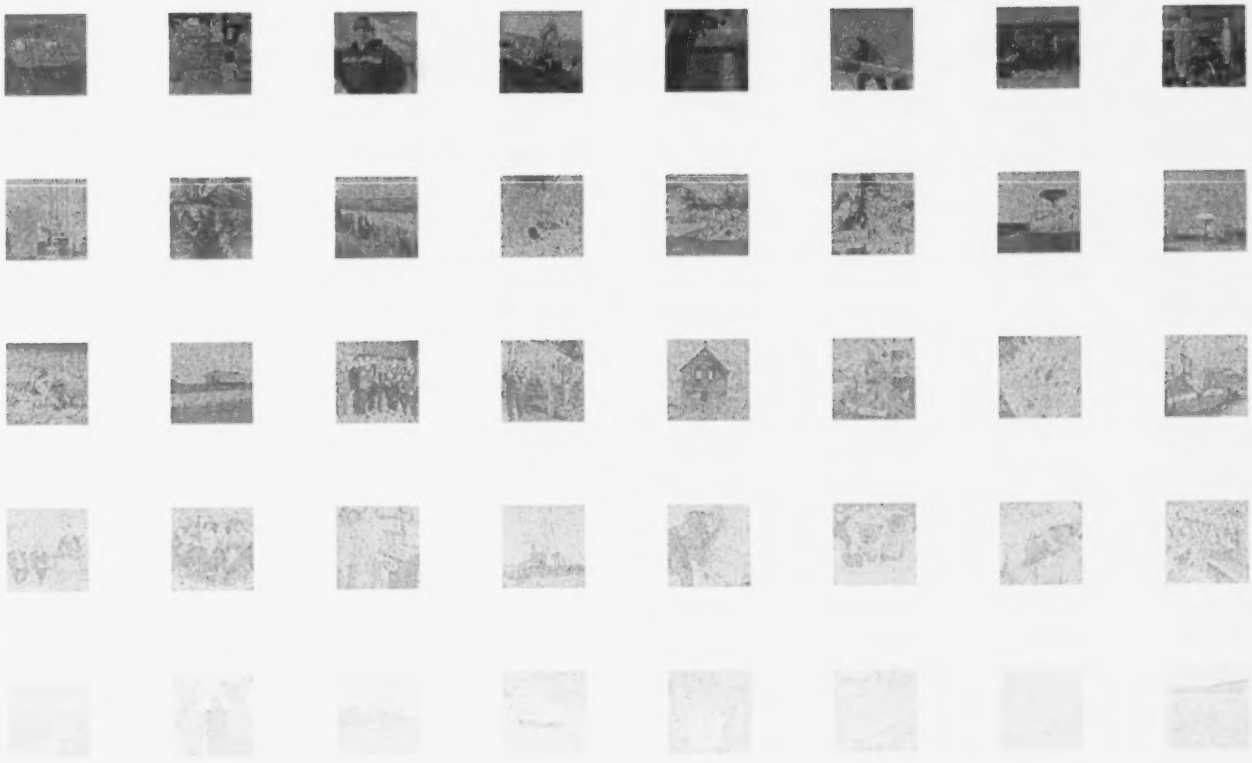
OUR FUTURE IS NOW

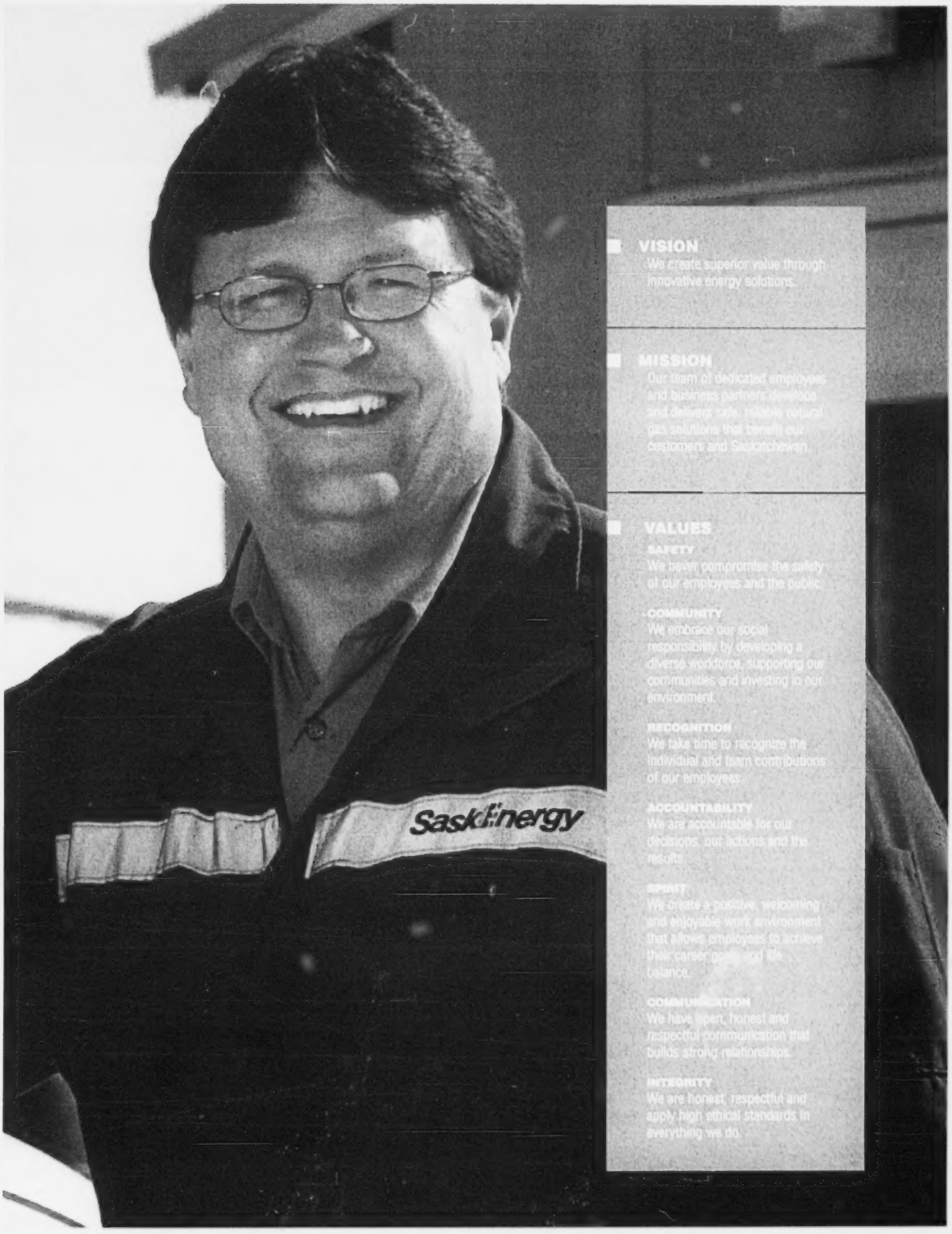
SaskEnergy

2006
ANNUAL
REPORT



THE TEAM, THE PLAN, AND THE COMMITMENT

All photographs courtesy of employees and friends of SaskEnergy/TransGas.



VISION

We create superior value through innovative energy solutions.

MISSION

Our team of dedicated employees and business partners develops and delivers safe, reliable natural gas solutions that benefit our customers and Saskatchewan.

VALUES

SAFETY
We never compromise the safety of our employees and the public.

COMMUNITY
We embrace our social responsibility by developing a diverse workforce, supporting our communities and investing in our environment.

RECOGNITION
We take time to recognize the individual and team contributions of our employees.

ACCOUNTABILITY
We are accountable for our decisions, our actions and the results.

SPIRIT
We create a positive, welcoming and enjoyable work environment that allows employees to achieve their career goals and life balance.

COMMUNICATION
We have open, honest and respectful communication that builds strong relationships.

INTEGRITY
We are honest, respectful and apply high ethical standards in everything we do.

TABLE OF CONTENTS

2 SaskEnergy – Our Future is Now
3 Corporate Profile
4 Consolidated Financial Information and Operating Statistics
5 Five-Year Operating Summary – Distribution
5 Five-Year Operating Summary – Transmission
6 Letter of Transmittal
7 Board of Directors and Executive Committee
8 President's Message

MANAGEMENT'S DISCUSSION AND ANALYSIS

11 Introduction
11 The Balanced Perspective
15 Safe and Reliable Operations
25 Customer Service Excellence
33 Competitive Rates
38 Special Section: SaskEnergy's New Strategic Plan
43 Financial and Operating Results
46 Delivering Shareholder Value
52 Analysis – Consolidated Financial Results
62 Sensitivity Analysis
63 Liquidity and Capital Resources
65 Risk Management
69 Critical Accounting Policies and Estimates

CONSOLIDATED FINANCIAL STATEMENTS

70 Statement of Management's Responsibility for Financial Statements
71 Auditors' Report
72 Consolidated Statement of Financial Position
73 Consolidated Statement of Earnings and Retained Earnings
74 Consolidated Statement of Cash Flows
75 Notes to the Consolidated Financial Statements

91 CORPORATE GOVERNANCE

SUPPLEMENTARY INFORMATION

99 Glossary of Natural Gas Measurements
99 Natural Gas Volume Equivalents at Normal Atmospheric Pressure
99 Map – SaskEnergy Incorporated Natural Gas Transmission Pipelines

RICHARD BRANDVOLD
SENIOR ENGINEER, DISTRIBUTION ENGINEERING

Serving the changing needs of SaskEnergy's more than 332,000 customers brings up infrastructure challenges big and small. Richard Brandvold leads SaskEnergy's distribution utility Engineering team on such projects as the 152 kilometre expansion of SaskEnergy's natural gas network north from Montreal Lake to the La Ronge area.

SASKENERGY – OUR FUTURE IS NOW

SaskEnergy/TransGas is more than a natural gas transmission, distribution, and storage company. We're a 24/7 operation dedicated to serving more than 332,000 customers across Saskatchewan with low-cost, safe, reliable and environmentally friendly natural gas services.

Our integrated transmission and distribution network is made up of more than 80,000 kilometres of pipeline, through which we serve over 92% of the Province's communities. But after more than a half century of building Saskatchewan, our work has only just begun.

The 1,000 men and women who make up our company, the true strength of SaskEnergy/TransGas, are nurtured in a business environment that thrives on creativity and innovation. We embrace technology and seek to develop growth opportunities within Saskatchewan to meet our customers' changing needs and to support the energy industry.

We are committed to the health of our communities and our environment, and are leaders in developing programs to help our customers conserve energy. Our focus on Clean Energy and a Green Future will help ensure sustainable community development for our children.

Through everything we do we never compromise on safety, a cornerstone of our business. We operate facilities and infrastructure in a climate of weather extremes, yet our highly skilled and dedicated workforce has created a service reliability reputation that is outstanding in the industry.

We will utilize our commitment to operational and service excellence to start building our future today by capturing opportunities for our Province, our company, and our employees.

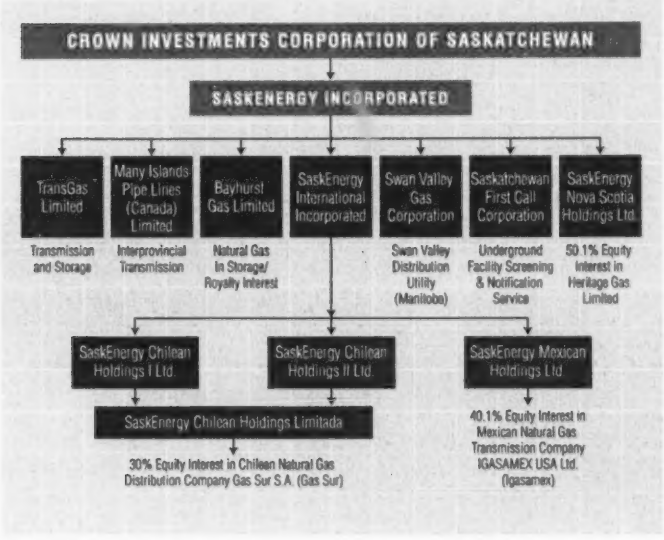
Our Future is Now.

CORPORATE PROFILE

SaskEnergy Incorporated (also referred to as SaskEnergy or the Corporation) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC). CIC is also a Crown corporation and effectively operates as the Province's holding company for commercial Crown corporations (such as SaskEnergy, SaskPower and SaskTel) and various commercial investments.

SaskEnergy's main business is the natural gas distribution utility. SaskEnergy owns and operates the distribution utility which has the exclusive legislated franchise to distribute natural gas within the Province of Saskatchewan. The Provincial Cabinet regulates SaskEnergy's delivery and commodity rates.

SaskEnergy's corporate structure consists of SaskEnergy (the Crown corporation) plus seven wholly owned subsidiaries as follows: TransGas Limited (TransGas) owns and operates the transmission utility, and has the exclusive legislated franchise to transport natural gas within the Province of Saskatchewan. It also owns and operates a non-regulated natural gas storage business as well as gathering and processing facilities which are integrated with the transmission pipeline system. TransGas' transmission pipeline rates are subject to Provincial Cabinet approval. TransGas has a Customer Dialogue process where business, operational and rate matters are openly discussed with a representative group of customers.


CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN
SASKENERGY INCORPORATED
TransGas Limited
Transmission and Storage
Many Islands Pipe Lines (Canada) Limited
Interprovincial Transmission
Bayhurst Gas Limited
Natural Gas In Storage/ Royalty Interest
SaskEnergy International Incorporated
Swan Valley Gas Corporation
Swan Valley Distribution Utility (Manitoba)
Saskatchewan First Call Corporation
Underground Facility Screening & Notification Service
SaskEnergy Nova Scotia Holdings Ltd.
50.1% Equity Interest in Heritage Gas Limited
SaskEnergy Chilean Holdings I Ltd.
SaskEnergy Chilean Holdings II Ltd.
SaskEnergy Mexican Holdings Ltd.
SaskEnergy Chilean Holdings Limitada
30% Equity Interest in Chilean Natural Gas Distribution Company Gas Sur S.A. (Gas Sur)
40.1% Equity Interest in Mexican Natural Gas Transmission Company IGASAMEX USA Ltd. (Igasamex)

Many Islands Pipe Lines (Canada) Limited (MIPL) is the transmission company that owns 11 transmission pipeline interconnections to Alberta, two into the United States, and one into Manitoba, all of which connect to the TransGas system. MIPL is regulated by the National Energy Board.

Bayhurst Gas Limited (Bayhurst) owns, produces and sells natural gas from its storage field-related assets in the west-central area of Saskatchewan. Bayhurst also owns a gross overriding royalty on approximately 450 properties in Saskatchewan and Alberta.

SaskEnergy International Incorporated (SEII) holds SaskEnergy's investments outside of Canada. SEII's primary focus is Chile and Mexico. SEII holds a 30% equity interest in Gas Sur, S.A., a natural gas distribution company in Chile, as well as a 40.1% equity interest in IGASAMEX USA Ltd., which owns a natural gas transmission service company in Mexico.

Swan Valley Gas Corporation (SVGC) owns a natural gas distribution utility in the Swan Valley area of western Manitoba. SVGC is regulated by the Manitoba Public Utilities Board.

Saskatchewan First Call Corporation (*Sask 1st Call*) provides a centralized "Call Before You Dig" underground facility screening and notification service. *Sask 1st Call* was established primarily for safety reasons to maintain a database of oil, gas and other underground infrastructures. *Sask 1st Call* provides a service whereby landowners and other stakeholders can contact *Sask 1st Call* to request the location of pipeline and non-pipeline-related facilities of its subscribers. *Sask 1st Call's* rate structure is intended to recover all operational costs and operate on a break-even basis.

SaskEnergy Nova Scotia Holdings Ltd. (SNSHL) holds SaskEnergy's 50.1% equity interest in Heritage Gas Limited (Heritage Gas), a Nova Scotia natural gas distribution company. Heritage Gas began serving its first residential customers in 2004. Heritage Gas is regulated by the Nova Scotia Utility and Review Board.

CONSOLIDATED FINANCIAL INFORMATION AND OPERATING STATISTICS

CONSOLIDATED FINANCIAL INFORMATION*	2006	2005	2004	2003	2002
($ MILLIONS)					
Commodity sales	**389**	376	387	375	377
Gas marketing sales	**594**	644	327	272	331
Delivery revenue	**153**	156	162	165	165
Transportation and storage revenue	**88**	88	88	81	68
Other	**30**	35	30	30	27
Total revenue	**1,254**	1,299	994	923	968
Commodity cost of gas sold	**395**	365	349	402	402
Gas marketing cost of gas sold	**558**	599	290	235	316
Operating expenses	**248**	258	247	245	243
Total expenses	**1,201**	1,222	886	882	961
Net earnings	**53**	77	108	41	7
Dividend	**35**	29	70	27	4
Total assets	**1,322**	1,371	1,286	1,235	1,211
Property, plant and equipment – net	**955**	947	949	941	922
Capital expenditures	**71**	59	68	79	57

OPERATING STATISTICS	2006	2005	2004	2003	2002
(PETAJOULES)					
Distribution volumes					
Residential	**29**	30	32	33	34
Commercial	**27**	28	29	30	30
Farm	**3**	4	4	4	4
Industrial	**66**	66	69	70	59
	125	128	134	137	127
Transmission volumes					
Domestic	**204**	201	211	208	199
Export	**155**	162	147	146	144
	359	363	358	354	343
Number of customers					
Distribution	**332,148**	329,240	327,586	325,504	323,721
Transmission	**124**	121	108	115	131

*Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

FIVE-YEAR OPERATING SUMMARY – DISTRIBUTION

	2006	2005	2004	2003	2002
Sales in million cubic metres[1]	**3,339**	3,411	3,607	3,686	3,419
Residential annual average usage (cubic metres)	**2,873**	3,060	3,287	3,420	3,478
Degree days[2]	**5,345**	5,577	5,844	5,817	5,987
PIPELINE					
(KILOMETRES)					
Distribution Utility					
Local Distribution Company	**66,043**	65,872	65,712	65,559	65,371
Swan Valley Gas Corporation	**120**	120	120	120	120
	66,163	65,992	65,832	65,679	65,491

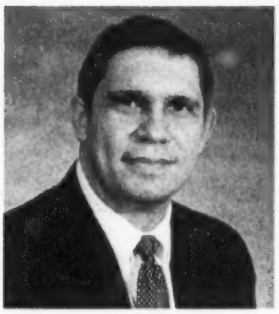
[1]Retail, industrial and gas marketing.

[2]A unit measuring the extent to which the temperature falls below 18° Celsius. (In a normal year, the degree days are 5,685.)

FIVE-YEAR OPERATING SUMMARY – TRANSMISSION

PIPELINE	2006	2005	2004	2003	2002
(KILOMETRES)					
TransGas Limited					
Transmission	**13,528**	13,482	13,412	13,358	13,216
Gathering	**197**	188	198	187	279
Many Islands Pipe Lines (Canada) Limited	**435**	435	435	435	435
Bayhurst Gas Limited	**92**	92	92	92	-
	14,252	14,197	14,127	14,072	13,930
COMPRESSOR STATIONS					
TransGas Limited	**22**	23	22	22	22
Many Islands Pipe Lines (Canada) Limited	**1**	1	1	1	1
Bayhurst Gas Limited	**3**	3	3	3	-
	26	27	26	26	23
COMPRESSION HORSEPOWER					
TransGas Limited	**82,200**	88,325	93,550	93,550	100,620
Many Islands Pipe Lines (Canada) Limited	**-**	-	-	4,000	4,000
Bayhurst Gas Limited	**6,300**	6,300	6,300	6,300	-
	88,500	94,625	99,850	103,850	104,620
Peak day natural gas flows (Petajoules)	**1.53**	1.38	1.48	1.46	1.30
Date of peak day flow	**Feb.16**	Jan.15	Jan. 27	Jan. 22	Jan. 28
Storage cavern sites	**8**	8	7	7	7
Storage caverns	**25**	24	22	23	23
Storage field sites	**2**	2	2	2	3
Producing field sites	**1**	1	1	1	-

LETTER OF TRANSMITTAL



March 31st, 2007

The Honourable Dr. Gordon Barnhart
Lieutenant Governor
Province of Saskatchewan

May it please Your Honour:

I respectfully submit the Annual Report of SaskEnergy Incorporated for the year ended December 31, 2006, in accordance with *The SaskEnergy Act*. The Financial Statements are in the form approved by the Treasury Board, and have been reported on by the Corporation's auditors.

Andrew Thomson
Minister Responsible for SaskEnergy

BOARD OF DIRECTORS

From left to right: **PETER BERGBUSCH**, **MICHAEL CHORLTON**, **JEAN WEIMER**, **FLORENCE NORMAN**, **HEATHER HEAVIN** (Acting Chair), **NADINE KRENOSKY**, **ELDON LINDGREN**, **NEIL HENNEBERG** (Board Secretary), **DONALD CHING** (Vice Chair)

Missing from photo: **RALPH HESJE**, **GEORGE LAFOND**

EXECUTIVE COMMITTEE

DOUG KELLN
President and Chief Executive Officer

LARRY BRAUN
President, Communications, Energy & Paperworkers (CEP) Union, Local 649

KEN FROM
Senior Vice President, Gas Supply & Business Development

MARK GUILLET
Vice President, General Counsel & Corporate Secretary

ROBERT HAYNES
Vice President, Human Resources

COLLEEN HUBER
Vice President, Corporate Support

GREG MRAZEK
Vice President, Finance and Chief Financial Officer

RON PODBIELSKI
Executive Director, Corporate Affairs

DARYL POSEHN
Senior Vice President, TransGas Limited

DEAN REEVE
Executive Vice President, SaskEnergy

PRESIDENT'S MESSAGE

This year's Annual Report theme, "Our Future is Now", reflects our belief that SaskEnergy is well down the road in realizing a dynamic and successful future.

In 2006, our company collectively developed a new strategic plan, focused around four key strategic mandates, "Our People", "Our Service", "Our Growth" and "Our Future". The visual representation of the mandates sends an important signal about where success starts and ends for SaskEnergy – with skilled and devoted employees, who provide the foundation to deliver safe and reliable service. They provide the opportunity to grow and ensure our long-term sustainability as an organization.

Successful companies in Western Canada understand the importance of an engaged workforce. We continue to evolve the type of compensation and benefits package and workforce environment that is protecting our vital people assets. Consider the following progress:

- We have a stable workforce with low turnover levels. In 2006, the oil and gas industry experienced a 12-13% turnover, while at SaskEnergy it was 3%.
- We are ahead of the curve in embracing diversity as a critical tool to renew our workforce. For example, nearly 12% of our employees are of Aboriginal descent and 55% of our new hires in 2006 were under 30 years of age.
- We have developed a workforce renewal initiative that is anticipating the future through pre-training. Through partnerships with the Gabriel Dumont Institute and the Saskatchewan Indian Institute of Technology, 11 Aboriginal candidates qualified for SaskEnergy trades induction and are fully qualified for entry-level positions within the organization.
- We have developed a formal succession plan that since its inception five years ago has identified and delivered 87% of the candidates for critical senior and middle management positions within the organization.
- We offer flexible employment arrangements: 66 flex-time arrangements already exist within the company and we are working toward the implementation of a compressed work week.
- We offer opportunities to allow our employees to grow within the Corporation. We invest over one million dollars annually on programs that offer technical, frontline and leadership training and have had nearly 90 employees complete an internal Leadership Development Program since 1998.

The competition for skilled workers will be more intense into the future. While competitive compensation is the foundation for recruitment and retention, people are also choosing those organizations which offer a rewarding work experience and work environment. With the average age of our workforce being 43 and many more experienced workers choosing to retire, there will be opportunities for new and existing employees to take on new roles within our workforce. Combined with the quality of life and cost of living benefits of Saskatchewan, SaskEnergy can offer a career that will prove very attractive to the next generation of workers.

STRATEGIC PLAN

Vision

We create superior value through innovative energy solutions.

Our service strategy builds from the efforts of our employees. The services delivered in 2006 achieved a number of significant milestones:

- Our more than 332,000 distribution customers received the lowest provincial natural gas commodity and delivery rates in Canada. In 2006, we surpassed Alberta utilities with lower delivery rates, a great achievement since Saskatchewan generally faces greater distance-related natural gas transmission costs.
- Our TransGas customers received competitive transmission and storage rates.
- An independent customer satisfaction study of 11 major Canadian natural gas and electricity utilities in 2006 placed SaskEnergy second overall on most indicators of customer satisfaction.
- We expanded services, with 2,908 net new customers and commodity services including more than 800 new customers in Lloydminster, Saskatchewan.
- We continue to be an industry leader in promoting energy conservation, with over 15,000 customers to the end of 2006 using programs within Saskatchewan Energy Share to upgrade the efficiency of their homes. SaskEnergy was proud to be a lead contributor to this provincial initiative.
- We recorded net earnings of $53 million in 2006, demonstrating effective business acumen.
- Our capital structure improved to 63% debt and 37% equity. Our debt to equity ratio is comparable to other utilities within our industry.

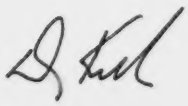
We are proactive in addressing our system, technology and service risks. Our extensive pipeline integrity program, which is discussed in more detail in the Annual Report, has been successful in ensuring our infrastructure, which in some cases is several decades old, remains safe and reliable. Technological solutions also continue to be at the forefront in defining the future of our customer service. Over the next year, we will implement a Truck Office Project which will allow our Service Technicians to receive their service work orders on-line in their vehicles, thus increasing productivity, improving service to our customers, and enhancing employee safety. In 2007, TransGas will provide customers' statements and invoices through its website. Similarly, in our five-year planning horizon, we will begin to implement a new customer information system that will build upon many of the services, such as eBill and on-line meter reading, that customers have been increasingly using in the past couple of years. Labour, technology and general cost pressures will continue to be felt on the SaskEnergy distribution utility in future years – nonetheless, our projections are for modest customer rate impacts that will maintain our leading position in competitive delivery rates.

Today's energy industry is presenting numerous opportunities to grow. Storage is in great demand in the natural gas marketplace, and we are expanding our storage capacity by roughly 25% through an already completely subscribed service offering. Our expertise in pipeline projects will potentially open up growth opportunities, such as carbon dioxide transport to enhanced oil recovery operations. We are also extraordinarily well-positioned as an integrated distribution/transmission company to contribute to provincial economic development from opportunities such as the collection of flared natural gas which can help protect our environment. Our business plan envisions $10 million of additional revenues by 2009 from these initiatives.

A healthy company means we can fulfill our obligation to our communities and customers in Saskatchewan. When we succeed, our Province succeeds and accordingly, I am very proud of our commitment to support non-profit and charitable organizations throughout Saskatchewan. Our charitable giving of approximately $1.6 million allowed us to participate in nearly 1,270 projects in over 300 communities, in many cases helped by volunteer efforts of our employees. Alongside so many others in our Province, we take part in building our communities – a responsibility we take seriously.

Thanks to the efforts of our employees and the support of our customers, 2006 was an excellent year for SaskEnergy. It was also a watershed year because our company has committed itself to a new strategic direction, one that is easy to grasp but will require focus to execute. Planning for the future is about seeing where you would like to be five, 10 or 15 years from now. But living the future is about committing to the necessary investments and business process improvements today. That's how we can realize our vision to "create superior value through innovative energy solutions."

We have the team, the plan, and above all the commitment, to reach our goal.



Doug Kelln
President and Chief Executive Officer

INTRODUCTION

The Management's Discussion and Analysis (MD&A) highlights the primary factors that impacted the operations and financial results of SaskEnergy Incorporated (SaskEnergy or the Corporation) and its wholly owned subsidiaries for the year ended December 31, 2006. Using the Balanced Perspective's financial and operating results as its basis, the MD&A describes the Corporation's past performance and future prospects. This enables readers to view SaskEnergy from the perspective of management.

The MD&A, together with the Consolidated Financial Statements of the Corporation and related notes, forms the basis for financial reporting. Additional information about the Corporation can be obtained from the Corporate Social Responsibility Report that together with the MD&A comprises the SaskEnergy Annual Report.

This discussion contains forward-looking statements that are based on certain estimates and assumptions and involve known and unknown risks and uncertainties. While the Corporation considers these estimates and assumptions to be reasonable based on information currently available, they may prove to be incorrect and therefore, actual performance and financial results may differ materially from the estimates and projections made. The risks and uncertainties are discussed in the sections titled "Sensitivity Analysis" and "Risk Management". The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

THE BALANCED PERSPECTIVE

SaskEnergy's business plan for 2006 was focused on six strategic mandates which drive every aspect of the business:

These strategic mandates play a crucial role in the Corporation's business planning, but they play an equally important role in its business reporting. Each year, SaskEnergy/TransGas comprehensively measures, reports and sets targets for all aspects of its business according to the highest benchmarks – those it sets for itself to create superior value through innovative energy solutions.

To fulfill several Crown corporation and Provincial Auditor recommendations and help Saskatchewan residents better understand the business, the SaskEnergy 2006 Annual Report is focused on the Corporation's performance as reported in the Balanced Perspective – a SaskEnergy scorecard used to monitor and manage organizational performance. This scorecard reflects SaskEnergy's six strategic mandates. Discussed in detail in the MD&A as well as in the Corporate Social Responsibility Report, the Balanced Perspective provides a comprehensive picture of the Corporation's 2006 financial results and key operational details about SaskEnergy and its subsidiaries.

While SaskEnergy's performance management processes have relied on the Balanced Perspective approach for the past several years, the targets and measures have changed over time in response to the Corporation's evolving objectives and emphasis. For this reason, there are certain targets established for 2006 for which no comparative data is available, and further, there are some measures used in 2006 that will no longer be used in 2007 and beyond. Comparative data has been included in the scorecards for the 2006 measures wherever practical to do so, even if it was not formally used as a target in the performance management process for that year. In 2007, the strategic mandates will change to reflect the new strategic plan for the Corporation. This new direction will be discussed in a special section entitled "SaskEnergy's New Strategic Plan".

The first part of the MD&A discusses Safe and Reliable Operations, Customer Service Excellence, and Competitive Rates. Results for the Community and Environmental Responsibility and Engaging Employees mandates are discussed in the Corporate Social Responsibility Report.

The second part of the MD&A discusses the remaining strategic mandate, Delivering Shareholder Value, and contains information specifically related to the Corporation's 2006 financial performance. Sections consist of:

FINANCIAL AND OPERATING RESULTS
A review of SaskEnergy's consolidated financial results and performance measurement

ANALYSIS – CONSOLIDATED FINANCIAL RESULTS
An analysis of the Corporation's consolidated revenue and expense categories

SENSITIVITY ANALYSIS
An indication of the sensitivity of the financial results of the Corporation to changes in key factors

LIQUIDITY AND CAPITAL RESOURCES
A review of the Corporation's financial condition and cash flow

RISK MANAGEMENT
A description of the business and financial risks identified by the Corporation, their potential impacts, and how they are managed

CRITICAL ACCOUNTING POLICIES AND ESTIMATES
An overview of significant accounting policies and estimates used by the Corporation

Immediately following the MD&A are the Corporation's Consolidated Financial Statements. These consist of:

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

AUDITORS' REPORT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

CONSOLIDATED STATEMENT OF CASH FLOWS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Following the Consolidated Financial Statements are the Corporation's governance practices and supplementary information. These consist of:

CORPORATE GOVERNANCE

GLOSSARY OF NATURAL GAS MEASUREMENTS

NATURAL GAS VOLUME EQUIVALENTS AT NORMAL ATMOSPHERIC PRESSURE

MAP – SASKENERGY INCORPORATED NATURAL GAS TRANSMISSION PIPELINES

BRAD BAXTER
DISTRICT MECHANIC OPERATOR II
WEST-CENTRAL DISTRICT

To safely transport and store natural gas takes a team of highly skilled professionals like Brad Baxter. TransGas relies on Brad's expertise and knowledge to constantly maintain a complex and elaborate transmission system that our customers depend upon 24/7.

PAT BOUDREAU
SERVICE TECHNICIAN/TROUBLESHOOTER

Through all the temperature extremes we face in Saskatchewan, Pat Boudreau ensures that the gas keeps flowing by constantly monitoring and maintaining the distribution natural gas meters throughout the Saskatoon region. Saskatoon's residential, business and industrial growth keeps Pat and her colleagues busy, as the area is now responsible for more than 40% of Saskatchewan's peak winter natural gas load.

OBJECTIVE: Design, operate and maintain a natural gas delivery system that meets customer reliability expectations and achieves industry standards for public safety.

SAFE AND RELIABLE OPERATIONS – SASKENERGY

Measures	2005 Actual	2006 Actual	2006 Target	2007 Target	2008 Target	2009 Target
Unplanned outages per 1,000 customers	5.3	**2.6**	2.5	2.5	2.0	2.0
Contacts with pipeline per 1,000 kilometres of pipe	2.6	**2.3**	2.5	2.5	2.4	2.3
% of the time SaskEnergy responds to safety-related incidents within one hour	88	**90**	98	98	98	98

MEASURES – SASKENERGY

Excavation activities conducted near SaskEnergy pipelines are the number one cause of safety and reliability issues with the Corporation's underground facilities. The number of contacts with SaskEnergy pipeline facilities each year is an important measure of the overall effectiveness of the Corporation's efforts through *Sask 1st Call* and other safety-related messaging to increase public and contractor awareness of SaskEnergy facilities. The fewer contacts with SaskEnergy's infrastructure, the less likely a safety-related incident will occur or an unplanned outage will disrupt natural gas service to customers.

SaskEnergy's distribution network provides continuous service to customers even during the extremes of Saskatchewan's climate. A key performance measure to gauge the reliability of SaskEnergy's natural gas distribution system is the number of unplanned service outages that affect customers. This industry measure expresses outages per 1,000 customers. These outages may result from third-party actions or from work being done by SaskEnergy that inadvertently interrupts natural gas service to customers.

The response time to priority safety calls is a key indicator of the Corporation's ability to provide safe and reliable service, maintain the integrity of its facilities, and protect the public. This measure is calculated as a weighted average percentage of the time SaskEnergy responds to safety-related incidents within one hour.

ANALYSIS – SASKENERGY

In 2006, SaskEnergy had an unplanned outage ratio of 2.6 outages per 1,000 customers, which was significantly less than in 2005. The most significant unplanned outage occurred in Melfort in July and caused temporary loss of service to approximately 300 customers. Further smaller outages occurred throughout the year, but in all instances, service was quickly restored to all customers.

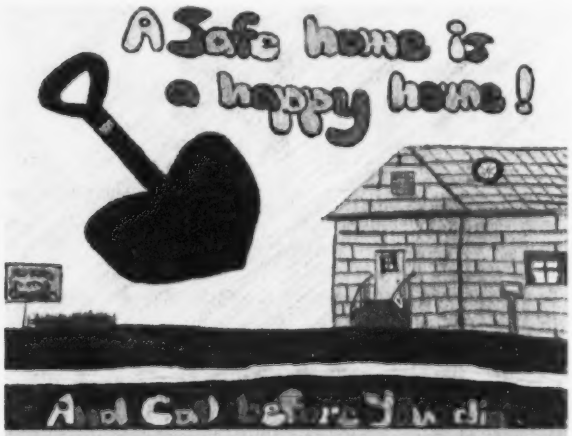
Analysis of the incidents resulting in unplanned outages indicate that SaskEnergy must continue focusing on two factors to reduce the number of unplanned outages – decreasing the number of incidents in which third parties make contact with distribution pipelines, and improving the planning and execution of system maintenance processes.

The measure of third-party contacts with SaskEnergy's pipeline in 2006 was 2.3 per 1,000 kilometres of pipe – lower than the 2006 target and significantly lower than in 2005. The reduced level of pipeline contacts indicates SaskEnergy's public safety-related messaging is becoming more effective.

In 2006, SaskEnergy actively promoted safety around the pipeline network through two key public awareness campaigns: "Call Before you Dig" and "Your Natural Gas Leak Detector". The "Call Before you Dig" messaging, in conjunction with *Sask 1st Call*, focused on the necessity of customers to have underground facilities located before beginning any excavation projects. In early fall, messaging around "Your Natural Gas Leak Detector" focused on the precautions and steps that should be taken if a natural gas leak is suspected. In a 2006 customer survey, 76% of our customers recalled seeing or hearing safety messages from SaskEnergy.

Sask 1st Call, the underground facility location screening and notification service for contractors and customers who are planning to dig, is a growing success. With 24 subscribing companies, there is over a quarter million kilometres of buried infrastructure across Saskatchewan that can now be accessed by a single toll-free number. *Sask 1st Call* fielded 76,900 line locate requests in 2006, which amounted to 111,231 notifications being issued. For added convenience, customers can now request line locates on-line or by fax.

This year, the Saskatchewan Common Ground Alliance was founded to provide a united voice to underground facility damage prevention in Saskatchewan. This group is part of the Common Ground Alliance which is a member-driven association with members from across North America who are dedicated to ensuring public safety, environmental protection, and the integrity of services by promoting effective damage prevention practices. A steering committee was formed from numerous stakeholders in the underground business, including *Sask 1st Call*, to further increase the profile of underground damage in Saskatchewan with the intention of reducing the amount of damage caused yearly to infrastructure.



In addition to its public awareness initiatives, SaskEnergy once again released the 2007 First Nations Safety Calendar showcasing the winning entries from the fifth annual SaskEnergy safety art contest. The calendar presents artwork and natural gas safety messages by 13 students from Saskatchewan's First Nations Schools. This calendar communicates natural gas safety messages, and at the same time reinforces the relationship between the Corporation and the First Nations communities in Saskatchewan. This drawing by Holley Swiftwords of Moosomin First Nation is one of 13 drawings included in the 2007 calendar.

Providing 24-hour-a-day service to a large geographic area poses a significant challenge for the Corporation: having staff available at all hours to respond to safety-related incidents across the Province. Providing this service is especially challenging in rural areas where the customer base is smaller, more dispersed and more remote than in the larger urban centres. The distribution utility manages this service commitment by having service staff located in 38 communities throughout the Province.

In 2006, SaskEnergy was able to respond to safety-related incidents within the hour 90% of the time, with an average response time of 31 minutes. Although this outcome is below the target of 98%, it remains a considerable achievement given the challenges inherent in responding within one hour to calls across such a wide service area. In the remaining 10% of cases, the average response time was approximately 91 minutes.

During 2006, SaskEnergy expanded its customer service and emergency response capabilities to 24 hours a day. This after-hours service was historically provided by SaskPower. SaskEnergy Customer Service Representatives now receive and dispatch emergency after-hours calls and respond to remote monitoring alarms at SaskEnergy facilities. The additional functionality is integrated with the long-standing TransGas Gas Control centre which operates the provincial natural gas pipeline systems on a 24/7 basis. In addition, the expanded customer services coverage will allow SaskEnergy to handle the after-hours emergency inquiries for *Sask 1st Call*.

SYSTEM INTEGRITY

SaskEnergy distributes natural gas through more than 66,000 kilometres of pipeline, which span the southern half of Saskatchewan. Monitoring, controlling and maintaining the regulator/metering stations, distribution mains and services that make up this system is an ongoing process that requires substantial resources. In 2006, SaskEnergy invested more than $8 million in a multi-faceted system integrity program designed to mitigate risks to pipeline and related infrastructure. This program helps to ensure SaskEnergy continues to provide safe and reliable service for Saskatchewan customers.

For the distribution system, ground surveys in rural areas are performed using detection equipment mounted on all-terrain vehicles. In urban and other high-density population areas, surveys are completed by personnel on foot carrying portable detection equipment. In 2006, approximately 20% of the distribution system was leak-surveyed. This includes 11,539 kilometres of main distribution pipeline, as well as 74,807 customer service lines. These surveys detected 50 underground leaks, a number considerably lower than the 98 leaks found in 2005. In all cases, the damaged pipeline was excavated and either replaced or reinforced.

In 2006, SaskEnergy performed cathodic protection surveys on approximately 20% of the distribution system. These systems, which involve impressing an electrical current on a pipeline to help prevent metal loss, form another important component of the Corporation's integrity program. These surveys revealed that in three locations, additional cathodic protection facilities were required and in 11 other locations, existing facilities required modifications to maintain protection levels.

In another system integrity activity called a close-interval over-line survey, a contractor on foot uses sensitive equipment to verify cathodic protection levels on sections of pipeline deemed to be at increased risk for corrosion. A close-interval survey was conducted on the Elevated Pressure system in Regina. SaskEnergy will review the results from this survey and take appropriate actions in 2007.

While working on system integrity initiatives, SaskEnergy/TransGas crews always take the proper safety precautions to maintain a safe work environment. SaskEnergy/TransGas work areas are always clearly marked to inform the public of potential safety hazards.

In 2006, SaskEnergy participated on a Distribution Task Force which included Canadian Gas Association (CGA) representatives from throughout the natural gas distribution industry in Canada. The Distribution System Task Force was mandated to develop best practice protocols for assessing risks associated with distribution systems from an industry-wide perspective and identify the different elements required to conduct or facilitate such risk assessments.

As well, SaskEnergy worked with other natural gas distribution utilities and regulatory bodies through the Canadian Standards Association (CSA) to develop guidelines that will be used to enhance the management of the integrity of gas distribution systems. These guidelines will be contained within an Annex of the CSA standard Z662 dealing with oil and natural gas pipeline systems. This industry participation provides validation of present practices and an ongoing opportunity to identify improvements.

SaskEnergy uses the PeopleSoft EnterpriseOne (OneWorld) business application to manage its ongoing preventative maintenance program. Over the course of 2006, OneWorld automatically generated more than 9,000 preventative maintenance orders for different work locations across the Province. These work orders helped match available resources with existing workload so SaskEnergy staff could efficiently maintain facilities such as the vast pipeline network, the over 600 pressure regulating stations and the custom measurement equipment.

SAFETY TRAINING

SaskEnergy's primary focus for its employees is safety. With this philosophy at its core, SaskEnergy has undergone extensive employee dialogue on safety in the workplace. As part of an initiative to increase workplace safety, SaskEnergy/TransGas continued Safety Stand-Down Week – an opportunity for Executive to discuss workplace safety with employees at their job sites. The Corporation held 32 meetings at different locations across the Province, and discussed employee health and safety with more than 600 SaskEnergy/TransGas employees. During these sessions, employees provided feedback on how to improve workplace health and safety performance, and offered suggestions on different ways to fulfill the Corporation's commitment to safe operations.

To compliment Safety Stand-Down Week, SaskEnergy devoted a special section of its intranet, entitled "Safety Matters", to safety practices and procedures. This site offers employees current and essential information on safety practices and safety statistics about SaskEnergy/TransGas employees, including such information as hazard awareness reporting and safety alerts. Employees are encouraged to use the new site as a reference point for current safety information.

OBJECTIVE: Design, operate and maintain a natural gas delivery system that meets customer reliability expectations and achieves industry standards for public safety.

SAFE AND RELIABLE OPERATIONS – TRANSGAS

Measures	2005 Actual	2006 Actual	2006 Target	2007 Target	2008 Target	2009 Target
Unplanned outages per year	3	**2**	0	0	0	0
Contacts with pipeline per year	2	**1**	0	0	0	0
% of the time TransGas responds to safety-related incidents within one hour	88	**100**	98	98	98	98

MEASURES – TRANSGAS

The number of unplanned outages on the TransGas system is a key indicator of how safe and reliable the Corporation's service is for customers, employees and the general public. An unplanned outage is classified as any non-scheduled disruption of service that negatively impacts a shipper's firm receipt transport, delivery transport or storage. A minimum of 24 hours notice to affected customers is required for an outage to be deemed a planned outage.

TransGas also assesses the safety and reliability of its operations in terms of the number of annual incidents where employee, contractor, or third-party contact with a pipeline results in damage to the pipeline or its protective coating. Such an incident does not need to involve the loss of natural gas to be considered a pipeline contact.

An important indicator of the Corporation's ability to provide safe and reliable service is the percentage of the time TransGas responds to safety-related incidents within one hour.

ANALYSIS – TRANSGAS

Although unplanned TransGas outages can occur for a variety of reasons, there are two primary activities that most often cause them. The first is where an unplanned outage occurs during the course of normal or planned maintenance, or due to an equipment or facility failure. Through appropriate training in operations and maintenance procedures, and with thorough outage planning and execution, TransGas targets zero customer unplanned outages related to normal operations activities. In addition, TransGas monitors natural gas quality and daily operational limits using the computerized Supervisory Control and Data Acquisition (SCADA) system and a variety of other equipment to ensure service is not interrupted. Approximately 125 outages were scheduled and completed in 2006 with only two unplanned customer outages occurring, the best annual performance since this measure was established.

The second factor is external, third-party activity that typically involves contact with a pipeline. TransGas has a variety of measures in place to minimize contacts. In 2006, one third-party contact occurred with a TransGas pipeline. In this situation, the contractor did not contact *Sask 1st Call* for a line locate prior to excavation. The pipeline sustained significant damage which required repairs before it was returned to normal operations. No natural gas was lost, no one was hurt, and no customers were impacted during the incident or the subsequent repair. Following this incident, the contractor was made aware of the need to use *Sask 1st Call* prior to any future excavations and was required to contribute to the repair costs.

Public awareness is a key part of ensuring the reliability of a pipeline network and the safety of those who work around it. During 2006, TransGas undertook a variety of public awareness initiatives to ensure Saskatchewan residents did not adversely affect – and were not adversely affected by – the SaskEnergy/TransGas pipeline infrastructure. At open houses and trade shows, for example, TransGas representatives instructed 372 firefighters and first responders on the proper safety procedures to follow in the event of a natural gas-related emergency. Representatives also spoke to approximately 1,200 delegates at the Saskatchewan Association of Rural Municipalities convention. During the year, TransGas conducted 2,076 mail-outs and individual visits to urban and rural municipalities, landowners and First Nations. As part of this initiative, 850 public awareness packages were sent to homeowners in Saskatoon that reside within 200 metres of high pressure transmission pipelines. Through the Contractor Safety Awareness Association, the Corporation also provided natural gas safety messaging – including the promotion of *Sask 1st Call* – to 2,844 contractors representing 857 companies.

TransGas is also a member of the Canadian Energy Pipeline Association (CEPA) that is dedicated to ensuring a strong and viable transmission pipeline industry in Canada in a manner that emphasizes public safety and pipeline integrity, social and environmental stewardship, and cost competitiveness.

SYSTEM INTEGRITY

TransGas operates an extensive natural gas pipeline and storage system that includes approximately 14,000 kilometres of transmission pipeline, 25 storage caverns and 22 compressor stations.

The resources required each year to operate and maintain such a complex system are substantial. In 2006, TransGas invested thousands of person-hours and more than $11 million in a system integrity program designed to provide for safe and reliable operation of all pressure containing systems. This program combines visual inspection, hands-on-maintenance and sophisticated technology to help ensure TransGas continues to provide safe and reliable service for Saskatchewan customers.

Our transmission system operates in one of the harshest climates faced by any pipeline company in the world. Bill Thacyk, Engineering Services Supervisor, brings years of knowledge and experience to the job by ensuring our design specifications exceed not only weather extremes, but also our customers' expectations for reliable operational performance.

In 2006, inspection of TransGas' facilities was again a priority. Each year, the entire transmission pipeline system is leak surveyed. This includes aerial surveys in rural areas performed by personnel who are skilled in recognizing surface features that indicate the presence of a natural gas leak or facility encroachment. During 2006, no underground pipeline leaks were detected. Intensive surveys were also conducted within the compressor stations around the Province. This survey activity identified 24 above ground pipe leaks that were minor in nature and were repaired without impact on operations.

Another part of the TransGas' system integrity program is cathodic protection testing. Cathodic protection systems use electric currents to mitigate the effects of corrosion on underground facilities. A variety of tests were again conducted to ensure the proper functioning of existing cathodic protection equipment. Approximately 14,000 kilometres of pipeline were inspected to check for adequacy of cathodic protection. These tests identified the need to install three additional cathodic protection facilities and in eight other areas, existing facilities required modifications to maintain protection levels at the minimum voltage requirements. In addition, TransGas conducted a cathodic protection close-interval over-line survey on 577 kilometres of TransGas pipeline, 72 kilometres of which was newly installed.

Direct examinations, the measurements and tests used to assess the condition of exposed facilities, are performed each year on above- and below-ground TransGas facilities. During 2006, direct examinations were conducted on 20 pressure vessels and 55 piping sections. As a result of these examinations, TransGas repaired two pressure vessels and three piping sections, and replaced one pressure vessel and two piping sections.

In pipeline Stress Corrosion Cracking (SCC) management, TransGas built its predictive model based on industry recommended practices, which take into account factors such as a pipeline's age, location, soil environment, and maintenance history. The model was used to determine action plans for the mitigation of SCC on certain pipelines. New in 2006, TransGas made preparations to run an ultrasonic in-line-inspection tool to inspect a prioritized 163 kilometre pipeline section in the Meadow Lake area. Modifications were done on the pipeline to facilitate the tool runs which were completed in January 2007.

In-Line-Inspections (ILIs) have become an increasingly important way for the Corporation to assess the integrity of its high-pressure transmission pipeline system. Each year, TransGas determines which areas of the system could be most at risk for corrosion, mechanical damage or manufacturing-related defects. During this process, the ILI tools are placed inside the pipeline and travel its entire length. The tool gauges wall thickness, defect size, dent shape and size, geometry, and metal loss. Information is stored in the tool and then cross-referenced with a location using a satellite positioning system. The data collected is analyzed to determine what action, if any, is required to maintain the pipeline's safety and reliability.

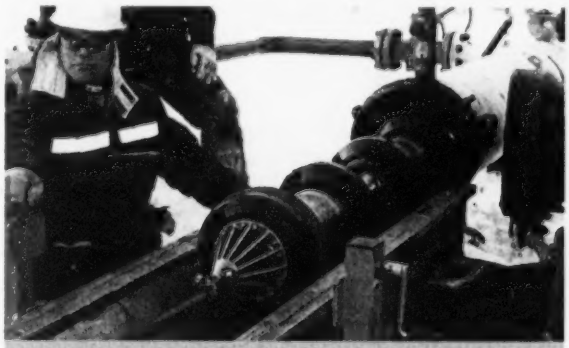
In 2006, TransGas conducted ILIs on seven segments of pipelines totalling 441 kilometres of its transmission system, including a 99 kilometre section from Coleville to Biggar that was the first re-inspection of a pipeline. By re-inspecting pipeline that has had baseline (first-time) ILIs, corrosion growth rates can be calculated which help to more accurately predict future re-inspection intervals.

TransGas also conducted direct pipeline examinations at 71 locations throughout the Province in 2006 which amounted to 1,955 metres of exposed and coated pipe. As a result, TransGas replaced 665 metres of damaged pipeline with new pipe and re-applied new high-integrity coating to 994 metres of pipeline.

TRANSGAS BASELINE IN-LINE-INSPECTION (ILI) OF PIPELINES

Year	Kilometres	Cumulative percentage of system
1998	14	0.1
1999	79	0.7
2000	96	1.4
2001	368	4.0
2002	589	8.2
2003	586	12.3
2004	833	18.2
2005	892	24.7
2006	342	26.7
2007	200 (proposed)	28.2
2008	200 (proposed)	29.7
2009	200 (proposed)	31.1
2010	100 (proposed)	32.0

This illustrates the percentage of TransGas pipeline which has been in-line-inspected for the first time. With an objective of conducting ILIs on 32% of its pipeline system by 2010, TransGas is well on its way to achieving its goal.



In 2006, TransGas tested a new Ultrasonic Crack Detection ILI tool on the Beacon Hill pipeline. Unlike regular ILIs, this tool requires that a special liquid be inserted in the pipeline to facilitate its movement and data acquisition. The new ILI, along with 190,000 litres of the liquid ran 163 kilometres from the Beacon Hill Compressor Station down to a block valve near the town of Leoville. Pictured here, Derrick Mann, TransGas Pipeline Integrity Engineer, receives the tool at the end of the pipeline.

TransGas also uses the PeopleSoft Enterprise (OneWorld) business application to manage its ongoing preventative maintenance program. Over the course of 2006, OneWorld automatically generated more than 1,900 preventative maintenance orders for different work locations across the Province, helping TransGas match available resources with existing workloads.

SAFETY TRAINING

Performing unplanned training sessions is one way that TransGas can accurately gauge whether employees are prepared to respond to safety incidents. On November 7, 2006, the Regina Area 6 Co-operative, which includes TransGas and SaskEnergy, conducted an emergency exercise or "mock disaster" in Northeast Regina's Pipeline Corridor next to SaskEnergy's Town Border Station #3. This year's scenario was based on a pipeline rupture which resulted in a natural gas leak and was designed to ensure better co-ordination between local energy companies and Regina-area emergency responders such as City Police, the Fire Department and Emergency Medical Services in the event of a real pipeline emergency. The mock disaster was considered to have been successfully brought under control with only minor suggestions for improvement.

General Manager of the Eastern District, Scott Tenison, consults with Regina Fire Fighters about the mock disaster after they responded to an emergency call made on the morning of November 7, 2006.

In 2006, SaskEnergy/TransGas once again coordinated health and safety training for supervisors utilizing the internal Supervisory Tools and Techniques Program (STTP). A total of 31 employees took part in the six-day program where they discussed items such as Occupational Health and Safety due diligence, job observation, incident investigation, change management, accountability, staffing, as well as discussion items relating to the role of the supervisor. Since it began in 1999, there have been eight STTP programs, with a total of 137 employees having completed the program.

In conjunction with the STTP training, five Safety Workshops were held throughout the year to provide those who were not part of the STTP training an opportunity to benefit from the important safety-related discussions. In total, 76 employees attended these workshops, not including the 31 employees who received the training as part of the STTP. These dedicated safety sessions are complemented by quarterly staff meetings for all TransGas operator personnel that have a portion of the agenda always dedicated to safety.

OUTLOOK

SAFE AND RELIABLE OPERATIONS – SASKENERGY

SaskEnergy will continue to minimize unplanned customer outages by increasing public awareness of underground facilities with *Sask 1st Call* promotions and through its participation in the newly formed Saskatchewan Common Ground Alliance.

In addition, SaskEnergy will focus on eliminating internally caused unplanned customer outages through operator training and refinement of field processes.

In 2007, SaskEnergy will be looking at further enhancing its integrity management practices for the distribution system through the continued use of the CSA Annex. SaskEnergy will participate with its industry peers on a CGA Task Force mandated to provide guidance on the application of the Annex – Guideline for Gas Distribution System Integrity Management Program. This will ensure that SaskEnergy is in step with industry best practices with regards to integrity management.

In 2007, SaskEnergy intends to allocate approximately $11 million of capital expenditures on system improvements, measurement equipment and tools required for ensuring safe and reliable operations.

SAFE AND RELIABLE OPERATIONS – TRANSGAS

In 2007, TransGas will complete the last year of its five-year mandate to reduce the risk of failure on its pipeline system. Through a program of condition assessment, risk assessment and risk mitigation, in the last four years TransGas has reduced risk on its facilities. The risk reduction work plan for 2007 will include fewer activities as the majority of risk reduction activities have already been completed. TransGas is confident that it will complete its mandate for risk reduction and has already begun working towards a maintenance plan to maintain risk at acceptable levels.

In 2007, TransGas is proposing to conduct ILIs on four pipeline sections – 383 kilometres – that have been previously baseline inspected to detect external corrosion. This process will provide essential data to predict safe and optimized re-inspection intervals in the future for the management of external corrosion.

In the Stress Corrosion Cracking Threat Management Program, TransGas will complete the Ultrasonic ILI that can detect cracks in the pipe on 165 kilometres of pipeline from Beacon Hill to Leoville. This will allow for detailed analysis of the pipeline's condition and will provide site specific information that will direct a mitigation program to re-enforce or replace areas that may not meet the high level of safety and reliability that is required for a natural gas transmission pipeline.

TransGas will also continue to review its threat identification programs and mitigation plans based on peer industry practices and findings from 2006. This review process is crucial to System Integrity Management and will allow for annual programs to be more efficient and provide for a safe and reliable pipeline system.

Also in 2007, TransGas will begin installing remote monitoring equipment on approximately 400 cathodic protection rectifiers. These rectifiers are currently monitored on a manual basis. This new program will create cost savings by eliminating the need for employees to venture to the source to monitor the rectifier's operations. The remote monitoring units will provide an electronic signal to a central location to make employees aware of a problem with the unit. This process will decrease the downtime of the rectifiers, hence reducing the probability for external corrosion occurring on buried pipeline infrastructure.

SaskEnergy

CUSTOMER SERVICE EXCELLENCE

OBJECTIVE: Develop and optimize customer service processes that meet existing customer needs and new customer growth. The customer service experience will be positive through strong relationships and customer choice.

CUSTOMER SERVICE EXCELLENCE– SASKENERGY

Measures	2005 Actual	2006 Actual	2006 Target	2007 Target	2008 Target	2009 Target
% of customer satisfaction with SaskEnergy service	94	**95**	85	87	87	87
% of time new SaskEnergy customer tie-ins meet customer needs (90 days or less)	94	**94**	95	95	95	95
% of SaskEnergy customers using e-business tools	35	**36**	25	30	35	35

MEASURES – SASKENERGY

With customer interactions such as inquiries, service calls and in-person bill payments exceeding 1,000,000 per year for the distribution utility, SaskEnergy's customer satisfaction levels are critical indicators of the Corporation's ability to meet customer needs. This measure, obtained from an annual customer survey conducted by an independent market research firm, is an important tool for evaluating the overall effectiveness of the policies, processes and people required to provide service to SaskEnergy's customers.

By working with all concerned parties – including land developers, municipal governments and individual businesses or homeowners – SaskEnergy strives to provide new natural gas service in a timely and cost-effective manner. A measure of the Corporation's success in this respect is the percentage of new customers connected to the distribution system prior to service activation timing requirements of the customers. A 90-day timeline is used as a target by the Corporation for customer connection timing requirements. This percentage is calculated by dividing the number of times SaskEnergy has provided service within the allotted time by the total number of service requests.

In recent years, the percentage of customers using SaskEnergy's on-line services has become an increasingly important means of judging both the distribution utility's efficiency and SaskEnergy's ability to meet changing customer needs. This measure is calculated as a percentage of residential customers using multiple on-line services.

ANALYSIS – SASKENERGY

CUSTOMER SATISFACTION

Each year, SaskEnergy performs a residential survey to gauge Saskatchewan customers' opinion of the Corporation. In the 2006 residential survey, over 95% of participating customers rated their overall satisfaction with SaskEnergy's service as "good," "very good" or "excellent".

SaskEnergy has also scored a top grade in a national customer satisfaction and benchmarking survey conducted by Ipsos Reid, a leading Canadian survey-based market research firm. The Ipsos Reid survey involved telephone interviews with 3,300 Canadians who were customers of 11 different electricity and natural gas utilities. Participants were asked to rate company performance on over 30 different questions related to overall perception, customer service, price, brand and reputation, among other indicators. Overall, SaskEnergy finished in second on most indicators of customer satisfaction, scoring well above the industry average on indicators such as being easy to do business with, being easily accessible, having high quality service, helping customers be energy efficient, and being a good corporate citizen.

This high level of customer satisfaction is due, in part, to SaskEnergy's promotion of energy efficiency programs. SaskEnergy is an industry leader in energy efficiency and thanks to Saskatchewan Energy Share, has been able to promote and administer many of the long-term components of the program such as the Programmable Thermostat rebate, Provincial Sales Tax rebate on ENERGY STAR® furnaces and boilers and EnerGuide for Houses.

These programs have been successful with over 15,000 Saskatchewan homeowners utilizing the rebates and grants available. SaskEnergy will continue to directly participate and administer Saskatchewan Energy Share on behalf of the Government of Saskatchewan.

SASKATCHEWAN Energy Share	Program uptake to December 31, 2006	
	Customers	Total
Programmable Thermostat Rebate	10,292	$451,987 (Average $44/customer)
$100 PST Rebate	553	$57,400 (Approximately $100/customer)
EnerGuide Provincial Matching Grant	4,696	$3,671,736 (Average $782/customer)
Saskatchewan EnerGuide Grant*	218	$125,023 (Average $574/customer)

*After the Federal Government cancelled the EnerGuide for Houses program on May 12, 2006, the Province of Saskatchewan introduced the Saskatchewan EnerGuide Grant on August 2, 2006 to allow homeowners the opportunity to continue to take advantage of the provincial program and rebates.

In 2006, SaskEnergy introduced the Commercial Boiler Program – an initiative designed to encourage the use of high-efficiency natural gas space-heating systems in commercial new construction and retrofit applications. Through the Commercial Boiler Program, commercial properties can increase the energy efficiency of their systems. By installing or upgrading to a condensing or near condensing boiler, commercial customers will reduce their annual operating costs and also benefit from financial incentives. In 2006, 48 applications were approved with incentives totalling over $700,000. The program is delivered by SaskEnergy Commercial Network Members. This Network is comprised of private mechanical contractor businesses and SaskEnergy, and is focused on providing natural gas equipment solutions for commercial businesses.

CUSTOMER CONNECTIONS

Historically, new service connections on the natural gas distribution system for SaskEnergy are in the range of 2,500 to 3,500 each year. Requests for natural gas service come from throughout SaskEnergy's service territory – an area covering more than 380,000 square kilometres. SaskEnergy administers these service requests through a work management process that tracks activity from the date of request to the final in-service date.

SaskEnergy installed 3,222 new customer service lines to its distribution system in 2006 as well as 149 other connection activities for a total of 3,371 customer activities. Adjusting for retired services, this translated into a net total of 2,908 customer service line additions. Of the 3,371 service activities, 3,158 were installed within 90 days of receiving the request. This equates to a success rate of 94% – similar to the 2005 results, and just under the 2006 target of 95%. Many of these services were installed in less than 60 days, particularly in subdivisions in the Province's major urban centres. This is especially impressive considering SaskEnergy is one of only a few natural gas utilities in Canada that installs new service lines during the winter season so new customers can have their natural gas service connected at any time of year.

Of the 213 services installed outside the targeted 90 days, the majority were in place before the customer actually needed or was ready to consume natural gas. Most of the delays in serving these customers were the result of either the customer's site not being ready to receive natural gas, or delays in receiving third-party approvals. In those few instances where the delay was expected to be significant, SaskEnergy advised the customers to allow them to make alternate arrangements.

In addition to the traditional new customer activations, SaskEnergy provided several new customer growth initiatives. On November 1, 2006, SaskEnergy successfully brought a natural gas commodity service to more than 800 Lloydminster residents and businesses on the Saskatchewan side of the border. A natural gas supply option was offered in June 2006, and SaskEnergy saw strong interest from the Saskatchewan residents of Lloydminster. While these customers will continue to receive their delivery service from ATCO Gas, SaskEnergy's commodity service will deliver the advantage of more stable rates which many customers wanted.

In November, SaskEnergy announced its intentions of bringing natural gas to La Ronge and Weyakwin, one of the largest remaining unserved areas in Saskatchewan. SaskEnergy received sufficient customer interest in this service offering and construction of the natural gas pipeline from Montreal Lake to La Ronge will begin in 2007 with a completion date in 2008. SaskEnergy's natural gas network was extended from Prince Albert north to Anglin Lake, McPhee Lake, Waskesiu, Elk Ridge and Montreal Lake in 1999, as part of Phase I of the project. The work with community representatives in the area which form the Anglin Lake – La Ronge Natural Gas Committee has been a key factor in serving this area of the Province.

At one of the public meetings held in La Ronge in November, Sandy Korczak, Business Manager for the Prince Albert office, explains to a local resident the cost savings associated with converting to natural gas.

E-BUSINESS TOOLS

Customer support of SaskEnergy's convenient e-business options continues to grow as more and more customers utilize SaskEnergy's on-line services. As a merit to SaskEnergy, these services were featured in the May edition of *Chartwell's Best Practices for Utilities and Energy Companies*. Chartwell is an independent information services company that provides best practices research and analysis to the utility and energy industry across North America. Impressed by the convenient on-line services that SaskEnergy offers customers, including My Account, eBill and the eCare Team, Chartwell showcased SaskEnergy's growing e-business success in their publication.

The number of customers who prefer interacting electronically with the Corporation continues to increase. In 2006, there were 97,134 transactions recorded through the e-business applications. These transactions include the number of eBills sent to customers, meter reads entered and e-mail inquiries received; as well as the number of customers who signed up for the Equalized Payment Plan; used the Network Member search; used ExpressAddress for moving; booked a Natural Choice Service™; and completed an *energycheck*™ audit. This was an 11% increase from 2005.

The SaskEnergy website saw a 29% increase in the number of visitors to the site since 2005, with 477,504 visitors taking advantage of one or more on-line services offered. Since its beginning in 2003, My Account has received 39,132 registrations. Of this number, over 31% of customers have opted to receive an eBill electronically and discontinue receiving their paper bill. This has amounted to a 49% increase in the number of eBills issued since 2005. The meter read service – an easy way for customers to provide monthly meter reads for billing – is another popular on-line service seeing almost 67,000 meter reads entered – a 29% increase over last year.

To manage customer inquiries, a dedicated eCare Team, located in SaskEnergy's Weyburn office, handles all requests, providing timely responses and offering another efficient and effective communication channel for customers and the Corporation.

OBJECTIVE: Develop and optimize customer service processes that meet existing customer needs and new customer growth. The customer service experience will be positive through strong relationships and customer choice.

CUSTOMER SERVICE EXCELLENCE – TRANSGAS

Measures	2005 Actual	2006 Actual	2006 Target	2007 Target	2008 Target	2009 Target
% of customer satisfaction with TransGas service	89	Survey planned for 2007	85	87	87	87
% of time new TransGas customer tie-ins meet customer needs (90 days or less)	84	88	95	95	95	95
% of TransGas customers using e-business tools	95	98	90	95	95	95

MEASURES – TRANSGAS

The TransGas Customer Satisfaction survey is a key indicator of customers' perception. The most recent survey was completed in late 2005 with results released in January 2006. The Customer Satisfaction survey is generally conducted every 18 months and as such, was not conducted in 2006. After implementing new internet applications in 2007, TransGas will once again conduct the Customer Satisfaction survey to obtain feedback on the new applications. Therefore, there is no new statistical information for 2006.

The customer tie-ins measure indicates the percentage of the time TransGas transmission system tie-in facilities are completed and ready for use within a particular timeframe – either before or at the same time customers are ready to make their first flows of natural gas. TransGas establishes each customer's estimated in-service date at the time of commitment, and continues to refine this date throughout the construction period in consultation with the customer to ensure that both parties' expectations and schedules are reasonably aligned.

The number of customers using TransGas' e-business tools is an indicator of the Corporation's efficiency and accessibility. Customers using transmission pipeline services expect to be able to access their information and complete business transactions on-line. Essentially all but a few customers use the website to complete their business transactions. Given that TransGas has reached essentially 100% use of the website by the customers, this measure is no longer appropriate in gauging customer satisfaction.

ANALYSIS – TRANSGAS

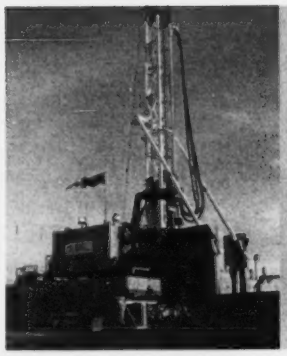
CUSTOMER SATISFACTION

TransGas transports natural gas for 124 customers – both those who produce natural gas for delivery onto the TransGas pipeline system, and those who receive natural gas from the system either for consumption or resale. Producing customers range in size from small companies with a few production wells to large-scale producers delivering natural gas onto the system at many different receipt points. Consumers who receive natural gas from the TransGas system include large industrial customers, power plants and the SaskEnergy distribution utility. Billing revenue for these larger-scale producing and consuming customers is typically in the range of $100,000 to $500,000 per year.

Delivering personalized service to these customers is always a major business focus for TransGas. Customer interaction starts with the initial phase of connecting a customer to the physical network and committing contractually to provide natural gas transportation service. From that point on, the customers usually interact with TransGas on a daily basis to utilize capacity on the pipeline system, so the Corporation must ensure competent, well-trained staff to respond to individual customer's changing needs. Using Key Account Managers – employees who specialize in handling the accounts of specific large-volume natural gas transporters – is a successful way to provide efficient and personalized service.

Another important component of TransGas' customer service strategy is the TransGas Customer Dialogue process. It is comprised of a cross-section of TransGas' major customers including natural gas producers, natural gas brokers/marketers, and natural gas end-users, which make up approximately 70% of TransGas flow volumes. The Customer Dialogue group allows customers to have input on TransGas service offerings, policies, capital expenditures and rate design. In August 2006, the TransGas Customer Dialogue process celebrated its 10th anniversary. The first Customer Dialogue meetings were held in 1996 in Calgary and Regina and grew out of the Customer Focus Group meetings that started in 1995. At the five meetings held in 2006, the Customer Dialogue group discussed rate-related items, tariff changes to continue business process improvement, and specific service discussion points. The Customer Dialogue participants at the dialogue table remain very much engaged in the process and are important for TransGas' effective delivery of service.

Each year, TransGas contracts physical storage capacity to allow its customers an opportunity to manage their supply costs and balance their demand and supply capabilities. This year marks the 9th consecutive year that storage was fully contracted. Because of the high demand for storage from its customers, TransGas has received approval from the Board of Directors to move forward with a storage expansion project over the next three to four years. This proposed storage expansion project will see an increase in storage capacity by a total of 7.7 Petajoules (PJ) in four existing locations across the Province and will also increase TransGas' deliverability by 150 Terajoules (TJ)/day.



As part of its storage expansion project, TransGas drilled a horizontal well at Unity to increase the field's deliverability. After completing the gathering system tie-in, an initial production test on the well indicated extremely positive results. A 30% increase in the Unity Storage field's daily production and injection capabilities is anticipated.

TransGas once again coordinated the annual Saskatchewan Natural Gas Advantage workshop in Calgary on November 21, 2006. This is the 4th consecutive year that this workshop has been hosted by TransGas. Presenters from Saskatchewan Industry and Resources, the Department of Environment, Agriculture and Food, Government Relations and TransGas provided crucial information to over 150 potential Saskatchewan investors and producers on all aspects of finding, exploring and drilling for natural gas in Saskatchewan.

CUSTOMER TIE-INS

The Corporation's record with respect to meeting customer needs for system tie-ins was a key reason for the high level of satisfaction with TransGas' service in 2006. Once a customer has committed to the facility expansion, TransGas' objective is to have facilities constructed and ready for operation prior to the customer's estimated in-service date. Because customers have invested significantly in their facilities, service delays can negatively impact their operations. At any given time, delays can be caused by factors including weather conditions, the availability of materials and personnel.

In 2006, TransGas exceeded customers' expectations by completing service tie-ins prior to the customer being ready to flow gas, on 14 of 16 projects – or approximately 88% of the time. While short of the established stretch target of 95%, this was an improvement over previous years. In the two instances when TransGas was delayed in beginning service, customer impact was minimized and service was provided within 30 days of the agreed-to in-service date.

E-BUSINESS TOOLS

In 2006, 98% of TransGas customers used e-business tools. This number is expected to increase to 100% in 2007 with the implementation of a new internet application.

In 2006, the major e-business development was not focused on enhanced customer functionality but rather enhanced on-line security. The protection of data is a responsibility of the utmost importance to TransGas.

TransGas also began work in 2006 providing its service statements and invoices electronically. These applications will increase the efficiencies for both TransGas and its customers. Expansion of the electronic access to these TransGas services is expected to be complete in 2007.

OUTLOOK

CUSTOMER SERVICE EXCELLENCE – SASKENERGY

Through the Truck Office Project, SaskEnergy technicians will receive their work orders through computers installed in their company vehicles. This project is expected to be implemented by 2008 through a staged process.

Another major project in 2007 will involve the initiation of a new system to replace SaskEnergy's current customer billing system. This project will commence its initial project planning and methodology definition in 2007 with work to be completed over the 2008/2009 time period. SaskEnergy will closely review alliance opportunities to identify the potential and feasibility of a common customer information system solution that will serve growth in residential and commercial customers.

SaskEnergy will continue to work with the communities of La Ronge and surrounding areas to promote the natural gas service offering. SaskEnergy received a sufficient number of customer commitments and will proceed with the project.

In 2007, SaskEnergy will pilot a program to offer energy efficiency audits to small- and medium-sized businesses. This new program will include a comprehensive energy audit that will identify energy use and energy saving opportunities.

CUSTOMER SERVICE EXCELLENCE – TRANSGAS

TransGas will target to achieve high standards of customer service in 2007. TransGas will once again conduct a customer satisfaction survey to receive feedback from its customer on its service levels and the new web applications.

The Corporation is constantly challenged to improve efficiency, increase revenue, reduce costs and offer new services, and the Customer Dialogue process will play an important role as TransGas looks for ways to improve business policies to meet customers' changing needs.

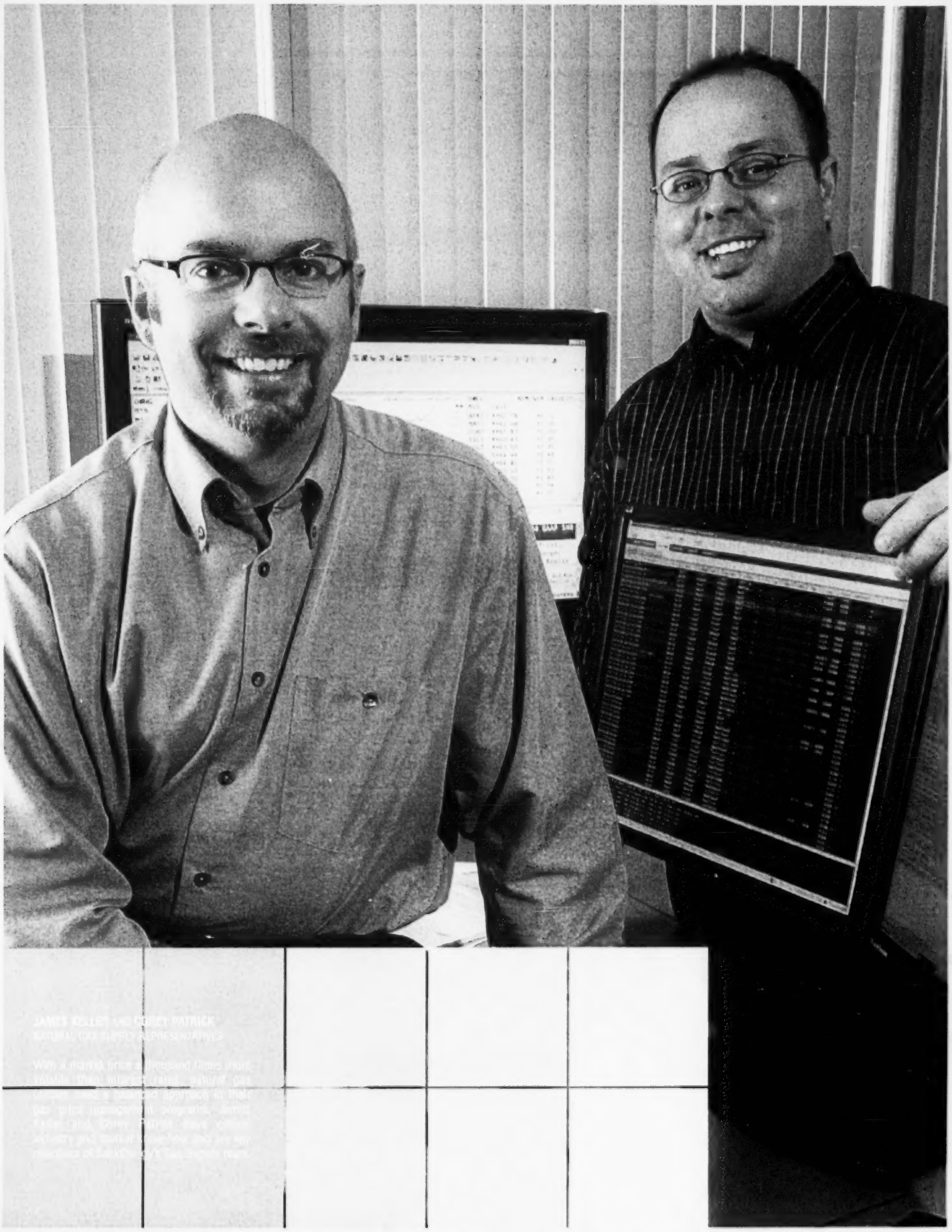
Meeting customer needs for new tie-ins will remain a focus in 2007. TransGas will work to improve upon the current 88% achievement rate for having TransGas facilities available when needed by the customer. In part, this will involve holding customer workshops and direct customer meetings to improve the understanding of both TransGas and individual customer requirements.

In 2007, TransGas will look to expand its transport capacity by building infrastructure to transport natural gas that is produced along with oil production in the southeast area of the Province. This focus has great environmental and potential economic benefits as it enables the capture and utilization of natural gas that is currently being flared to atmosphere, thereby reducing greenhouse gas emissions.

Construction on the fourth storage cavern at the Asquith natural gas storage facility near Saskatoon began construction in 2006, and will be fully operational in the fall of 2007. The completion of the fourth cavern will conclude the Asquith storage project near Saskatoon that began in 2003. With the addition of the fourth cavern, the Asquith natural gas storage facility will provide storage capacity of approximately 3 PJ and will help ensure reliable winter service to the Saskatoon area.

SHAKI STEINBURG
ENGINEER, SYSTEM INTEGRITY

Shaki Steinburg utilizes risk-based management techniques and asset-management tools to ensure that the integrity of Transalta Utility's 14,000 kilometres of transmission pipeline meets the requirements and expectations of our customers.

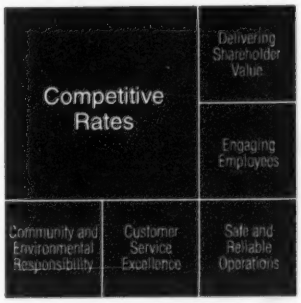


COMPETITIVE RATES

OBJECTIVE: Provide fair, stable and competitive rates, while contributing to the objective of having the lowest delivered cost for residential customers.

COMPETITIVE RATES – SASKENERGY

Measures	2005 Actual	2006 Actual	2006 Target	2007 Target	2008 Target	2009 Target
SaskEnergy to achieve the lowest weighted average cost of gas among major Canadian utilities	lowest	**lowest**	lowest	lowest	lowest	lowest
SaskEnergy to maintain lowest rates in Canada for distribution delivery service for residential customers	2nd lowest	**lowest**	lowest	lowest	lowest	lowest



MEASURES – SASKENERGY

Each year, SaskEnergy's target is to achieve the lowest weighted average cost of gas for its customers compared to other major Canadian natural gas utilities. This is reflected on customers' bills as the commodity charge. All utilities that buy natural gas in the open marketplace, including SaskEnergy, are subject to the same market forces and must pay the market price of natural gas. Natural gas prices are subject to many external forces, such as supply/demand and weather conditions. With the unpredictability of these conditions, natural gas prices are extremely volatile. For this reason, SaskEnergy strategically manages the risk associated with the volatility of natural gas purchase prices. SaskEnergy uses derivative financial instruments to minimize some of the natural gas price volatility that exists. Due to variations between summer and winter pricing, storage at times can act as a natural hedge. Derivative financial instruments and storage help contribute to SaskEnergy's objective of providing a commodity rate for customers that is both low *and* stable.

The Corporation serves a vast yet relatively sparsely populated geographic area in the Province, where natural gas must often be transported a great distance to customers. Despite these geographical challenges, in 2006 SaskEnergy established a target to have the lowest rate in Canada for natural gas delivery service. The delivery service is reflected on customers' bills through the basic monthly charge and the delivery charge. To meet this target, SaskEnergy must manage the costs that are within its control, such as the operating and maintenance expenditures to safely deliver natural gas to its customers.

ANALYSIS – SASKENERGY

COMMODITY COSTS

After reaching historical highs in late 2005, North American natural gas prices staged a reversal in 2006. Natural gas prices began the year at near record levels of approximately $11.50/Gigajoule (GJ) still reeling from supply cuts in the Gulf of Mexico that occurred in the 2005 hurricane season. But prices steadily dropped as the mildest January on record was followed by a cool spring and a moderate summer, thereby limiting natural gas demand.

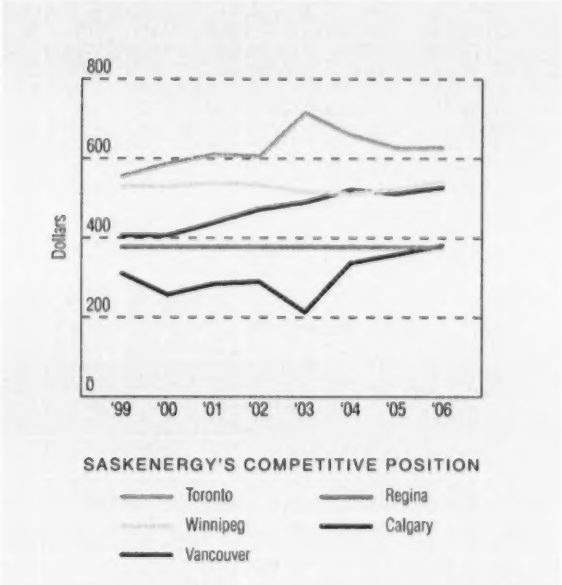
The warmer-than-normal early 2006 weather meant that storage facilities across North America did not completely empty and then refilled quickly in the summer months, reaching capacity one month sooner than anticipated. Storage capacity allows SaskEnergy to purchase natural gas during the lower demand summer period hence reducing the percentage of natural gas that must be purchased during the winter.

In the spring of 2006, SaskEnergy applied to the Saskatchewan Rate Review Panel for a commodity rate decrease to $6.80/GJ from $7.95/GJ. This new commodity rate that was approved April 1, 2006, reflected the lower spring and summer natural gas prices and was made possible through an effective price management strategy. SaskEnergy's commodity rate of $7.95/GJ had been in effect since November 1, 2005 and included funding from Saskatchewan Energy Share of up to $2.93/GJ, capping SaskEnergy's commodity rate at $7.95/GJ. This one-time assistance, which protected consumers from high natural gas rates in the winter of 2005/06, expired March 31, 2006. This decrease from the capped rate represented a 10% overall bill reduction for the average residential customer.

The commodity rate decrease to $6.80/GJ reflected summer prices and was not expected to remain in place throughout the winter of 2006. Despite spot natural gas prices falling in the late fall, winter future prices remained resilient to any substantial declines. These higher forward prices prompted SaskEnergy to apply for a new commodity rate of $7.17/GJ effective November 1, 2006 . This new rate represented an increase in the commodity rate of 5.4% from the existing rate of $6.80/GJ for the average residential customer. However, this rate will have customers pay approximately $60 less on average than they did from last winter's (November – March) capped rate of $7.95/GJ.

DELIVERY COSTS

In 2006, SaskEnergy was able to keep delivery rates unchanged primarily due to lower transportation and storage costs and lower interest costs. This marked the 9th consecutive year SaskEnergy maintained its delivery rates at their existing levels. As a result, SaskEnergy met its target of having the lowest natural gas delivery rates in Canada for 2006. The last delivery rate increase – one of only 2.3% – occurred in July 1997.

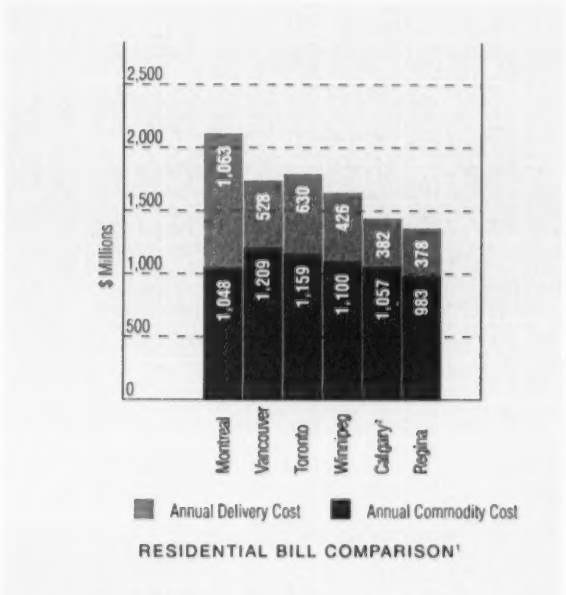


This graph illustrates SaskEnergy's stable delivery rate over the years. In comparison, other companies' delivery rates have fluctuated and, on average, increased over the years. The stable delivery rate has helped lessen the impact of volatile and rising natural gas prices over the past several years.

The Corporation provides postage-stamp delivery rates to all customer classes, including more than 22,000 farms across the Province. As a result, the typical Saskatchewan residential customer had natural gas delivery costs that were the lowest in Canada in 2006. Delivery costs typically represent less than one-third of a customer's bill.

COMBINED DELIVERY AND COMMODITY COSTS

With assistance from Saskatchewan Energy Share, SaskEnergy met 2006 targets with respect to both delivery and commodity rates. As a result, Saskatchewan residents had the lowest average annual bills in Canada compared to natural gas consumers in other provinces.



Notes: 1. Rates are in effect for the twelve-month period ending December 31, 2006 based on an annual consumption of 3,550 m³.
2. Does not include the Alberta Natural Gas rebate of $309.15
Source: SaskEnergy, January 2007

OBJECTIVE: Provide fair, stable and competitive rates for all customers.

COMPETITIVE RATES – TRANSGAS

Measures	2005 Actual	2006 Actual	2006 Target	2007 Target	2008 Target	2009 Target
TransGas will provide fair and stable rates to all shippers, with a focus on maintaining a highly competitive position compared to TransCanada Alberta system (NOVA) - Transportation rates (Cents/GJ)	25.2 Lower than target by 5.0 cents	**24.3 Lower than target by approximately one cent**	24.7 Lower than average TCPL (Nova)	25.3 Lower than average TCPL (Nova)	26.1 Lower than average TCPL (Nova)	27.0 Lower than average TCPL (Nova)

MEASURES – TRANSGAS

The competitive benchmark is provided by comparing the TransGas Export Rate to the rates of TransCanada Pipelines' NOVA Gas Transmission Ltd. subsidiary (NOVA) – a company that provides similar services in Alberta.

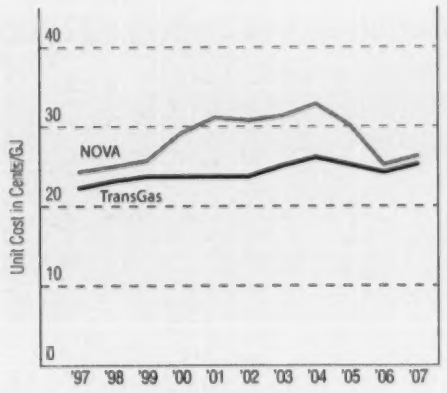
This measurement compares the transportation cost to move natural gas from an average receipt point in Alberta to the export market with the transportation cost to move natural gas from any receipt point in Saskatchewan to the export market. This comparison is indicative of TransGas' overall cost-competitiveness. The cost of natural gas transportation is one of many factors producers and large end-users take into consideration when deciding whether or not to invest in Saskatchewan operations.

ANALYSIS – TRANSGAS

TRANSPORTATION RATES

Natural gas transportation rates are an important component of a shipper's cost of doing business in Saskatchewan. As a result, when producers choose to develop new or incremental supply areas, or when end-users commit to consuming natural gas, they expect competitive transportation rates with other pipelines in Western Canada.

TransGas' rates continued to compare favourably in 2006. Transportation and storage rates were reduced by an average 2.6% on January 1, 2006 and then by a further 3% from June 1 to December 31, 2006, allowing TransGas to maintain its competitive advantage over NOVA's rates. By year end, this third consecutive year of rate reductions meant that TransGas' transportation rates were approximately one cent per GJ lower than those on the Alberta system.

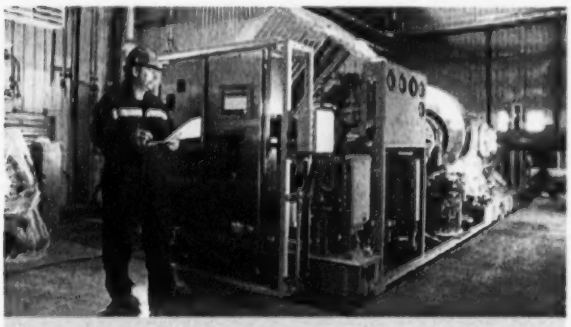


TRANSGAS' COMPETITIVE POSITION

Producers viewed Saskatchewan as a profitable natural gas market, despite industry-wide challenges in accessing capital and personnel and a moderating commodity price. In 2006, 1,472 wells were drilled in Saskatchewan, a 15% decrease from 2005. The decrease was due to lower drilling activity in Southwest Saskatchewan, offset somewhat by higher drilling activity in Northwest Saskatchewan. However, total production in the Province remained relatively constant in 2006.

Over the course of the year, TransGas added a total of 12 new receipt points to its system. On March 28, 2006 Saskatchewan receipts reached 778 TJ/day. Although this is slightly less than the current record for Saskatchewan receipts set on December 22, 2005, overall transportation levels, including natural gas flowing to the export market, remain at comparatively high levels. In 2006, a total of 359 PJ were transported by TransGas, a decrease of 1% from 2005.

TransGas uses many cost management strategies to achieve low rates. In 2006, a new agreement was created to modify the commercial arrangements at the Coleville Processing Plant. In addition to the operation of a compressor station, liquid by-products, such as propane and butane, are realized in the operation of its process plant. These liquids historically had been provided to other third parties in return for their investment in operation of the plant. A new Liquids Purchase Agreement which was negotiated for January 1, 2007, will be beneficial to both TransGas and its customers.



Another way that TransGas lowers its costs is by re-evaluating the efficiency of its equipment. Pictured here, Dave Clackson, Lead Gas Operations Supervisor, prepares to start up the relocated Rosetown 'D' Plant Compressor. This new installation is the result of a large turbine facility optimization plan which saw the sale of the 7,000 horsepower Rosetown Twelve Compressor and the transfer of a Centaur compressor unit from another TransGas station. This new combined unit will use less energy over the long term which will create cost savings for the Corporation.

TransGas' integrated storage and transmission facilities present opportunities to optimize their capacity at times when customers do not require them. This involves the purchase and sale of natural gas at times when incremental revenue can be generated. In 2006, TransGas successfully executed a total of 5 PJ of facility optimization purchases and sales which generated additional net revenue of $2.3 million.

TransGas experienced its fourth consecutive year of decline in fuel gas consumption which contributes to the overall cost savings. Combined with continued operating, maintenance, and administrative cost containment, these measures helped TransGas reduce its transportation rates for the third consecutive year.

STORAGE RATES

Saskatchewan is located between the major natural gas-producing areas to the west and the major energy-consuming areas in eastern Canada and the United States. As a result, natural gas storage is an important and cost-effective service offering for TransGas customers. By contracting non-site-specific physical storage capacity at TransGas' eight storage locations across the Province, customers can balance their demand and supply requirements, as well as help manage their supply costs.

In 2006, TransGas had all 32.8 PJ of its storage capacity fully contracted, including the newly operational storage cavern at Asquith natural gas storage facility. This marked the 9th consecutive year that storage was fully contracted.

In 2006, the field of four leached caverns and one operating cavern at Asquith natural gas storage facility was expanded by the addition of a fifth cavern. The Asquith natural gas storage facility, near Yorkton, provides critical additional natural gas supply security for the Saskatoon area. TransGas began construction on the fourth and final cavern at Asquith in 2006 and it is expected to be operational by the fall of 2007.

OUTLOOK

COMPETITIVE RATES – SASKENERGY

Similar to other Canadian natural gas utilities, SaskEnergy is mandated to recover, without profit over the long-term, the cost of the natural gas it purchases for its distribution utility customers on the open market. Natural gas prices in the North American marketplace are considered the most volatile of all actively traded commodities. It is not unusual for abnormal weather events to cause prices to sharply rise or decline in a short period of time. Nonetheless, SaskEnergy will continue working to provide Saskatchewan customers with competitive natural gas rates in 2007.

In early 2007, due to inflationary pressures, SaskEnergy submitted a delivery rate application to the Saskatchewan Rate Review Panel for a delivery service increase of $2.00/month for residential customers. If approved for June 1, 2007, this would be SaskEnergy's first delivery service increase in a decade.

COMPETITIVE RATES – TRANSGAS

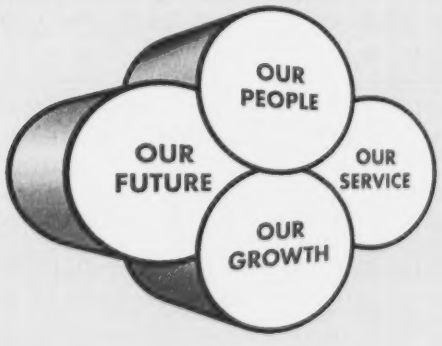
Despite many cost management strategies in place to maintain the cost of business, TransGas announced changes to the transportation and storage service rates effective January 1, 2007. This small increase of 2.0% will meet the overall revenue requirement and along with small adjustments to the individual rates, will maintain the fairness of its rate design. This increase is needed to offset the anticipated reduction in transportation flows on the TransGas transmission system. The lower flows are primarily due to normal natural gas field production declines.

As TransGas moves forward into 2007, the NOVA 4.4% interim rate adjustment announced for 2007 exceeds the 2.0% TransGas increase and will result in the TransGas rate advantage increasing to nearly 5%.

In 2006, SaskEnergy completed a 15-month process to develop a new strategic plan. The plan was developed with assistance from an external consultant and an 18-member team comprised of executive management, front-line and support groups from SaskEnergy and TransGas, and the Communications, Energy and Paperworkers Union, Local 649. Through a parallel process as the plan was being developed, employees across the Province provided valuable input to the plan's direction and focus. In addition, external stakeholders (such as the TransGas Customer Dialogue group) were included in the parallel process.

The strategic plan outlines a new vision and mission for the company, sets forth seven values and 43 key action items, under four critical strategic mandates: Our People; Our Service; Our Growth; and Our Future. Based upon our scan of the external environment and our knowledge of the company's industry and business, we believe that the critical risk and capacity challenges as well as the keys to future success can be understood and addressed within each of the specific mandates. In addition, the company annually participates in a joint risk evaluation exercise with its Board of Directors which provides input to the annual business planning process.

In addition to the strategic plan's four mandates, a new scorecard has been created with new measures that will provide an accurate assessment of the Corporation's performance. These new measures will be reported in the 2007 Annual Report.



STRATEGIC PLAN

Vision

We create superior value through innovative energy solutions.

OUR PEOPLE

The human resources challenges facing companies operating in the energy business are considerable. Tremendous competition from dynamic Western Canadian growth coupled with specific market pressures in Saskatchewan, creates intense demand for professional and trades staff such as engineers, millwrights and welders.

Our success depends upon a highly skilled, motivated, engaged and productive workforce as envisioned by the "Our People" strategy. We have several strengths in this area:

- We have the advantage of a mature, experienced employee base with an average service time of 15.3 years;
- We have traditionally had very low staff turnover levels by industry averages. Turnover was 3% in 2006, as opposed to 12-13% within our industry;
- We have established work/life balance through flexible working arrangements;
- Our workforce is developing a greater component of diversity to take advantage of the emerging demographics of the Saskatchewan marketplace. Approximately 12% of our current workforce is of Aboriginal descent; and
- The Corporation has a strong commitment and significant resourcing devoted to employee safety.

With an average employee age of 43, the need to effectively renew our workforce is critical. The "Our People" strategy envisions a comprehensive overall approach to ensure we manage human resources risk through a program which will make SaskEnergy an employer of choice today and into the future. Some of the core components of this strategy are:

- Providing competitive compensation and benefit adjustments to our staff, including market adjustments for positions at risk, and investigating further methods to expand the link between corporate and individual performance to remuneration. The Corporation will also proceed with an update to its job evaluation system, to ensure positions are rated appropriately to the market;
- Introducing a greater degree of choice and flexibility to our compensation and benefits package;
- Providing a culture where safety is uncompromised. Every employee must work and go home safe;

- Celebrating our individual and team achievements through recognition;
- Building a positive, welcoming and enjoyable work environment that sees employees achieve their career goals and their own work/life balance; and
- Evolving an increasingly diverse workforce which recognizes Saskatchewan's unique demographic opportunity.

OUR SERVICE

SaskEnergy operates an integrated distribution, transmission and storage business in Saskatchewan. The strategic plan envisions a commitment to performance excellence through product and service solutions which create high levels of customer satisfaction.

A central focus of the strategic plan is ensuring our business practices support safe, uninterrupted and reliable natural gas services. The age of SaskEnergy's natural gas infrastructure, which in many cases is 30-50 years old, demands the Corporation invest significant resources in a risk-based pipeline integrity program. The results of this ongoing work are discussed in this Annual Report. The Corporation's infrastructure is also widely dispersed over a large geographic area with relatively fewer customers compared to other natural gas utilities. Business processes must support immediate response to "odour calls" and "no heat calls" in extreme weather conditions. These high levels of service are currently achieved while maintaining rates that are among the lowest in Canada.

We are similarly committed to managing technology and business practices to ensure we put the right staff and resources in the right place for tomorrow's business needs.

- Currently, the distribution utility's scheduling and dispatch processes are primarily a manual process. An automated dispatch system is being configured and implemented to enable SaskEnergy Service Technicians to access their work scheduling via technology in their vehicles. This automation allows for improved customer call management, time savings as well as aid in lowering vehicle fuel consumption.
- The current customer information system was analyzed to determine SaskEnergy's ability to meet future business needs.
- TransGas is advancing with a statement and invoice e-business project scheduled for completion in 2007.

The Corporation currently enjoys high customer satisfaction levels and expects to benchmark well compared to other natural gas utilities in Canada. As well, the strategic plan envisions commitments to training, networking and cross-functional learning to ensure the entire SaskEnergy team is equipped to deliver creative solutions to customers.

OUR GROWTH

The SaskEnergy strategic plan envisions leveraging its existing distribution, transmission and storage expertise to participate in opportunities relative to the growing energy market in Saskatchewan. Growth activities to be investigated include:

- The gathering of natural gas that is currently being flared into the atmosphere;
- Storage system expansion;
- Carbon dioxide pipeline transport; and
- Natural Gas in Coal production.

The Corporation has sufficient financial resources to execute the growth initiatives and has created a dedicated business development group. Where necessary, outside resources, alliances or partners will complement our efforts. The nature of these growth opportunities ranges from expansion of existing services, such as storage, to more exploratory ventures such as Natural Gas in Coal.

OUR FUTURE

SaskEnergy's strategic plan includes sustainable business activities which support the health and well-being of both the company and the wider community. The future focus of the strategic plan includes activities related to community involvement, environmental responsibility, financial strength and corporate governance. The following are some core components of this strategy:

- SaskEnergy will strengthen communities by investing and participating in community-based activities. By working together with stakeholder groups in the Province, the Corporation will positively contribute to the unique quality of life that exists in Saskatchewan;
- The Corporation will develop and implement energy conservation programs to encourage customers to become energy efficient and will work to reduce the impact of its daily operations on the environment by increasing the role it plays in stewarding a non-renewable resource;
- The Corporation is committed to ongoing public reporting of its activities relative to future-based initiatives; and
- The Corporation will improve its enterprise value through prudent growth, capital investment and service rates which support a competitive return for our Owner.

CONCLUSION

The strategic plan's four new mandates are the cornerstones to achieving our vision of creating superior value through innovative energy solutions. This vision can only be achieved with a team of dedicated employees working in cooperation with one another. As people are the key to any success in the Corporation, they remain at the forefront of the strategic plan. Each strategic mandate is inter-dependent, symbolizing the inter-connectedness of each mandate; one cannot succeed without the other. It is with this philosophy that the strategic plan establishes a clear direction for the Corporation; one that will allow it to succeed in the future.

WENDY KLINGER
DIRECTOR, UTILITIES ACCOUNTING

Meeting the financial requirements that support the business activities of a broad range portfolio is no small task, but Wendy Klinger certainly up to the challenge. By applying her own knowledge and experience to every project, she leads the development and implementation of the accounting and financial reporting for Xcel Energy and its affiliates. Together with the Distribution and Transmission accounting teams, Wendy helps maintain a solid financial position for the Corporation.

MIKE MACLEOD
MANAGER, FINANCIAL PLANNING

As Manager of Financial Planning, Mike MacLeod is responsible for developing the Corporate Planning, Budget and Performance Management processes, while working with senior management to assist on the business plan. He has a strong background in working with many groups of people. Mike is a current participant in the Leadership Development Program.

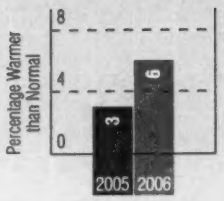
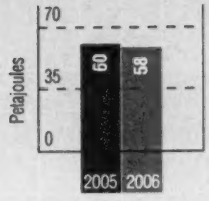
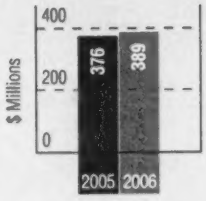
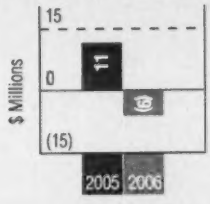
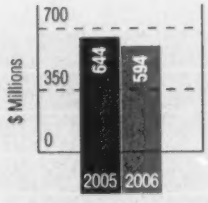
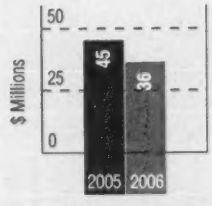
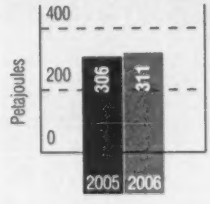
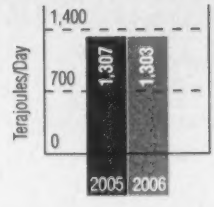
FINANCIAL AND OPERATING RESULTS

OVERVIEW

The primary business of SaskEnergy and its wholly owned subsidiaries is the distribution, transportation and storage of natural gas in the Province of Saskatchewan. Its assets of over $1 billion include ownership of distribution and transmission pipelines and related facilities, underground storage facilities, and investments in natural gas transmission and distribution facilities in Manitoba, Nova Scotia, Chile, and Mexico. SaskEnergy's secondary business activities are conducted through its wholly owned subsidiaries to provide key support services and to compliment core business.

SaskEnergy's consolidated net earnings for 2006 were $53 million, which was a decrease of $24 million from 2005, primarily due to a lower commodity margin. During 2006, SaskEnergy had a commodity sales revenue shortfall of $6 million on natural gas sales to distribution utility customers, compared to a positive margin of $11 million in 2005. Delivery revenue of $153 million was $3 million lower than levels achieved in 2005, however both years were adversely affected by warm winter weather. Transportation and storage revenues of $88 million were comparable to 2005. Net sales from natural gas marketing were $36 million, which was $9 million lower than 2005. These variances were partially offset by approximately $5 million in expense reductions and higher cost revenue compared to 2005. The 2006 annual dividend of $35 million was based on 65% of the 2006 consolidated net earnings.

OPERATIONS	ENTITY
DELIVERY SaskEnergy has the legislative franchise for the distribution of natural gas within the Province of Saskatchewan. The distribution system provides natural gas service to more than 332,000 residential, farm and commercial customers over a 66,000 kilometre pipeline system. SaskEnergy, through its wholly owned subsidiaries, also provides distribution services in certain areas of Manitoba and Nova Scotia.	- SaskEnergy Incorporated - Swan Valley Gas Corporation - SaskEnergy Nova Scotia Holdings Ltd. (through its 50.1% equity interest in Heritage Gas Limited)
COMMODITY SaskEnergy is the supplier of natural gas to the vast majority of its more than 332,000 delivery customers in the Province. Similar to practices in other regulated Canadian jurisdictions, SaskEnergy's commodity rates are designed to ensure that, in the long-term, the Corporation neither profits from nor incurs a loss on the sale of natural gas to its commodity customers. SaskEnergy, through its subsidiaries, is also involved in supplying and distributing natural gas in Manitoba and in the Province of Nova Scotia.	- SaskEnergy Incorporated - Swan Valley Gas Corporation - SaskEnergy Nova Scotia Holdings Ltd. (through its 50.1% equity interest in Heritage Gas Limited)
GAS MARKETING The Corporation has natural gas marketing operations that buy and sell natural gas on the open market to earn a margin. Natural gas is also sold from certain natural gas storage facilities in west-central Saskatchewan as these facilities are no longer used in commercial storage operations.	- SaskEnergy Incorporated - TransGas Limited - Bayhurst Gas Limited
TRANSPORTATION AND STORAGE The transmission system provides transportation and storage services to the distribution system, producers, marketers and large volume end-use customers within Saskatchewan.	- TransGas Limited - Many Islands Pipe Lines (Canada) Limited
OTHER The remaining operations of SaskEnergy include royalty revenue earned on certain natural gas producing properties in Saskatchewan and Alberta, activities related to SaskEnergy's core business expertise including services such as the operation of an underground infrastructure location database in Saskatchewan, and two international equity investments in natural gas-related businesses in Chile and Mexico.	- Bayhurst Gas Limited - Saskatchewan First Call Corporation - SaskEnergy International Incorporated

RESULTS	KEY DRIVERS AND 2006 HIGHLIGHTS
 WINTER WEATHER  VOLUMES DISTRIBUTED	• Delivery revenue is primarily driven by the volume of natural gas delivered to residential, farm, commercial and industrial customers in Saskatchewan as well as delivery rates. • The majority of SaskEnergy's distribution customers consume natural gas for space heating purposes. As a result, the volume of natural gas distributed is sensitive to variations in weather, particularly through the prime heating load season from November to March.
 COMMODITY SALES  GAIN (LOSS) ON COMMODITY SALES	• Commodity sales are a function of the volume of natural gas sold and SaskEnergy's commodity rate. • The commodity rate was $7.95/Gigajoule (GJ) from January 1 to March 31, $6.80/GJ from April 1 to October 31 and $7.17/GJ from November 1 to December 31. • During 2006, SaskEnergy received $20.5 million (2005 - $53.6 million) from the Province of Saskatchewan's General Revenue Fund related to Saskatchewan Energy Share.
 GAS MARKETING SALES  SALES MARGIN	• Gas marketing activities are undertaken to earn a margin from natural gas sales. • The Corporation engages in these activities primarily to maximize the use of its natural gas transmission and storage capacity. • Gas marketing sales margins decreased by 20% relative to 2005 and generated a net margin of approximately $36 million.
 TRANSMISSION SYSTEM RECEIPTS  TRANSMISSION DELIVERY CONTRACT DEMAND	• During 2006, 1,472 natural gas wells were drilled in the Province compared to 1,737 in 2005. Transportation demand is based in part on the natural gas production in the industry. • TransGas storage capacity was fully contracted in 2006 – the 9th consecutive year. • TransGas' transportation and storage rates decreased by 2.6% effective January 1, and a further 3.0% temporary rate reduction was effective from June 1 to December 31.

The Corporation owns a gross overriding royalty on approximately 450 natural gas-producing properties located in Saskatchewan and Alberta whereby it receives payments in accordance with the terms and conditions of the royalty interest. Saskatchewan First Call Corporation fielded 76,900 requests in 2006 from excavators requesting assistance in determining the location of underground facilities. Also during 2006, SaskEnergy International Incorporated generated net earnings of $0.8 million derived from its proportionate share of investment earnings from its two investments.

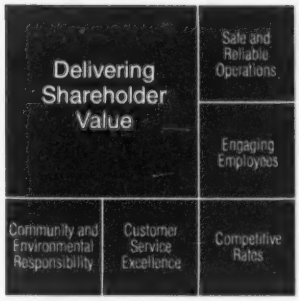
DELIVERING SHAREHOLDER VALUE

OBJECTIVE: Strengthen the financial position of the organization with prudent growth and capital investment.

DELIVERING SHAREHOLDER VALUE – FINANCIAL PERFORMANCE

Measures	2005 Actual	2006 Actual	2006 Target	2007 Target	2008 Target	2009 Target
Rate of Return on Equity (%)						
- SaskEnergy*	6.8	**7.7**	8.0	9.1	9.5	9.5
- TransGas	12.2	**12.1**	10.5	10.5	10.5	10.5
Subsidiaries						
- Combined Net Earnings ($ Millions)	39	**28**	27	28	28	24
Consolidated Net Earnings ($ Millions)	77	**53**	78	63	63	59

Excludes Gain (Loss) on Commodity Sales



MEASURES – FINANCIAL PERFORMANCE

The measures used to track financial performance for 2006 consist of rate of return on equity for the two largest business units – SaskEnergy - Distribution Division and TransGas Limited (TransGas) – as well as combined net earnings targets for all of the remaining wholly owned subsidiaries. These subsidiaries include Many Islands Pipe Lines (Canada) Limited, Bayhurst Gas Limited, SaskEnergy International Incorporated, Swan Valley Gas Corporation, Saskatchewan First Call Corporation, and SaskEnergy Nova Scotia Holdings Ltd.

ANALYSIS – FINANCIAL PERFORMANCE

DISTRIBUTION DIVISION - SASKENERGY

The 2006 target rate of return on equity for the SaskEnergy - Distribution Division was 8.0%, before the financial effects of the commodity margin. This rate of return on equity was based on budgeted net earnings from operations of $14.3 million. The 2006 actual net earnings from operations of $14.2 million resulted in a rate of return on equity of 7.7%, which was lower than target. These results exceed the 2005 rate of return on equity of 6.8% and net earnings from operations of $11.8 million, which were $2.4 million lower than in 2006.

The financial results for SaskEnergy - Distribution Division are sensitive to the volumes of natural gas distributed. Volumes distributed are impacted by winter weather as most customers consume natural gas primarily for space heating purposes. Another factor that influences distribution volumes is the efficiency in which customers use natural gas. Improvements in building insulation methods, the development of more energy efficient natural gas equipment and the ongoing energy conservation measures and practices of customers have noticeably lessened the level of consumption on a per customer basis.

Energy conservation for customers is important to the future sustainability of SaskEnergy's delivery business. Although such initiatives actually lower delivery revenue, they help consumers use natural gas as efficiently as possible, thereby encouraging them to choose natural gas to meet their long-term energy needs. In 2006, SaskEnergy assisted the Government of Saskatchewan with its long-term vision for reducing energy consumption and using energy more efficiently. Commencing in 2005, SaskEnergy partnered with the provincial government to help consumers decrease their energy use and increase their savings through energy conservation programs as part of Saskatchewan Energy Share.

During 2006, winter weather was 6% warmer than normal, resulting in lower distribution revenues of more than $10 million. Distribution volumes in 2006 were 58 Petajoules (PJ) versus 60 PJ in 2005. The 2006 budget, which includes assumptions for normal winter weather, estimated distribution volumes at 63 PJ.

Despite the effects of warmer than expected winter weather, strong natural gas marketing results and operating expense savings partially offset the unfavourable revenue variance resulting in SaskEnergy achieving only slightly below its rate of return on equity target.

Operating costs were approximately $2 million lower than budget, partially due to TransGas temporarily lowering its rates for transportation and storage services during 2006, with the balance of savings resulting from reduced operating and maintenance, interest and amortization expenses.

SaskEnergy - Distribution Division requires the ability to meet the natural gas demand from customers on the coldest days of the year, and therefore it necessarily contracts for sufficient natural gas supply, transportation, and storage capacity to meet anticipated peak requirements that are estimated based on historic weather experience. These levels of capacity are necessary to ensure that natural gas service will meet even the extreme consumption demands that could arise from cold weather. Over the course of the year, there will be periods when this capacity will be underutilized. Given this condition, a primary goal for natural gas marketing activities is to optimize the physical and intangible assets by leveraging this underutilized capacity. By doing so, the Corporation can realize incremental revenues thereby lowering delivery revenue required from customers.

These natural gas marketing activities contribute to the Distribution Division beyond just the financial results as it affords an opportunity to increase SaskEnergy's profile within the industry and strengthen relationships with natural gas producers. In addition, the day-to-day natural gas marketing activities serve to enhance the liquidity and commerciality of the natural gas market in Saskatchewan, which contributes to making the Province more attractive for natural gas producer operations and investment. SaskEnergy also competes to supply natural gas to larger end-use customers in Saskatchewan through non-regulated contract sales.

During 2006, there was a combination of both warmer winter weather, which created available capacity, and a high level of volatility in natural gas prices, which created a positive environment for natural gas marketing opportunities. In 2006, SaskEnergy sold 67 PJ of natural gas through natural gas marketing activities which generated incremental net revenues of $10.7 million. This level of net revenue is $7.7 million higher than forecast in the budget and $4.5 million higher than achieved in 2005. During 2005, natural gas marketing activities generated net revenue of $6.2 million, based on natural gas sales of 68 PJ.

TRANSGAS LIMITED

TransGas' rate of return on equity target of 10.5% equated to a budget level of net earnings of $19.4 million. The 2006 actual net earnings of $21.9 million resulted in a rate of return on equity of 12.1%, which was lower than target. This level of return and earnings was similar to the results achieved in 2005, in which TransGas generated earnings of $21.4 million and achieved a rate of return on equity of 12.2%.

The demand for natural gas transportation is influenced by the production from natural gas reserves. Natural gas producers implement drilling programs to seek new sources of supply as well as to maximize production from existing reserve locations. In 2006, there were 1,472 natural gas wells drilled in the Province, which marks the third consecutive year of decline since the Saskatchewan record was set in 2003 with 2,294 natural gas wells drilled. As the level of natural gas prices has a significant influence on drilling, the softening of prices in 2006 had a dampening effect on drilling programs. Reduced natural gas well drilling activity in 2006 was a contributor to the reduction in contracted transportation capacity to bring gas onto the pipeline system in 2006 relative to 2005 levels.

In 2006, TransGas generated revenues of $130 million through transportation, gathering, compression, storage and related services. The temporary rate reduction of 3% that was implemented in June 2006 was not contemplated in the budget; however, this revenue reduction was offset by other favourable revenue items. As 2006 revenues achieved budget levels, TransGas' strong financial results were largely attributable to operating cost savings.

During 2006, there were a number of developments which had a favourable impact on the expense results for TransGas. One was the negotiation for a new service offering, which enabled TransGas to deliver lower heat value natural gas from the Shackleton production area directly onto an interconnecting pipeline system. This achievement eliminated the need for propane enrichment, which has an estimated net cost of more than $2 million annually.

Another major development was the divestiture of the Rosetown Taurus compressor unit which occurred early in 2006. In 2005, TransGas finalized plans to divest of this compressor unit and replace it with a unit from another location. In early 2006, there was a significant shortage in supply of compression equipment and a long waiting period for those requiring the purchase of new units, which created ideal circumstances for selling this unit. As a result, TransGas achieved a final sale price of approximately $2 million, resulting in a gain of $1 million during 2006.

TransGas anticipated the effects that these items would have on earnings early in 2006, and proceeded to seek the necessary approvals to implement a temporary 3% reduction in tolls to share some of these benefits with shippers. The reduction in tolls was made effective for the period June 1 – December 31, 2006. This temporary rate reduction was designed to save customers over $2 million in transportation and storage charges in the second half of 2006.

Subsequent to this decision, further favourable developments occurred such as significant softening in the price of natural gas that lowered the costs of compressor fuel. Also, savings were achieved in the performance of planned major maintenance activities. These favourable variances were partially offset by the write down of certain storage- and compression-related assets that were no longer required in operations.

In total, net earnings were approximately $3 million higher than budget as a result of operating and maintenance expense savings, which contributed approximately $2 million, and lower depreciation expenses of $1 million resulting from asset divestitures and lower than anticipated capital expenditures.

In 2006, TransGas had strong financial results that exceeded the financial targets for rate of return on equity while still maintaining competitive service rates for shippers. TransGas lowered its rates on January 1 and temporarily on June 1 that provided a benefit to customers of more than $5 million in 2006.

SUBSIDIARIES

In 2006, the combined net earnings from subsidiaries were $28 million, $1 million higher than the target of $27 million, but $11 million lower than the levels achieved in 2005. The favourable variance was primarily the result of higher than expected earnings in Many Islands Pipe Lines (Canada) Limited and Swan Valley Gas Corporation, which is described further in this section. The significant variance from the level of earnings achieved in 2005 is primarily attributable to lower storage gas sales volumes in Bayhurst Gas Limited. Within this category, Bayhurst is the most significant subsidiary and accounts for approximately 90% of the total earnings by subsidiaries.

Many Islands Pipe Lines (Canada) Limited (MIPL)

MIPL had a strong year in 2006, generating net earnings $0.7 million which were $0.3 million over budget and $0.4 million above 2005 results. In 2006, MIPL generated total revenues of $4.1 million, which exceeded 2005 revenues of $3.9 million. During 2006, MIPL had higher than anticipated transportation activity on the pipeline to Portal, North Dakota, which contributed to the higher revenues. The balance of the earnings variance relative to 2005 is attributable to lower operating and maintenance expenses.

Bayhurst Gas Limited (Bayhurst)

In 2006, Bayhurst earned $5.4 million in royalty revenue which was $0.8 million lower than the $6.2 million earned in 2005. A decline in natural gas sales prices and volumes sold in 2006 resulted in the reduced royalty income from levels achieved in 2005.

The decommissioning process of the Beacon Hill facility involves producing natural gas from the facility and selling it in the open market. During 2006, natural gas marketing sales, less related expenses, provided net revenues of $18.7 million compared to $31.2 million in 2005. Net revenues were down as a result of both reduced volumes of storage gas sold in 2006 as well as lower natural gas prices.

During the late summer and early fall of 2006, natural gas prices dropped dramatically to the lowest levels experienced over the last four years. In response to this development, Bayhurst curtailed natural gas production from the Beacon Hill storage facility and instead, purchased and injected approximately 4 PJ of natural gas into inventory for resale at a later date. This move resulted in lower total natural gas marketing sales of 3.7 PJ compared to the original budget of 4.1 PJ. Total natural gas marketing sales of 6.1 PJ occurred in 2005.

In 2006, Bayhurst realized its target level of net earnings of $24.1 million. Net natural gas marketing sales were below budget in 2006 by $1.6 million; however, this variance was offset by higher gross overriding royalty revenue.

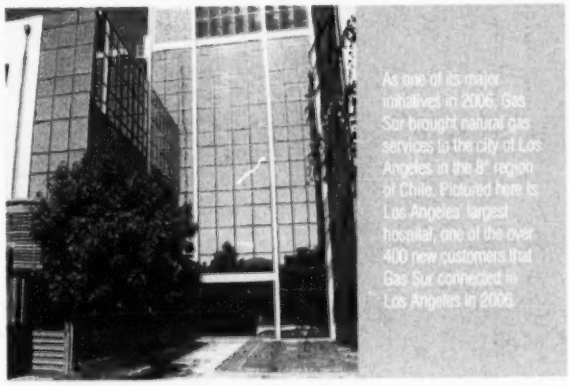
SaskEnergy International Incorporated (SEII)

Earnings from these two investments enabled SEII to achieve profitability in 2006. SEII's net earnings of $0.8 million in 2006 compare favourably to the loss of $0.1 million incurred in 2005. Both Gas Sur and Igasamex continued to be profitable and expand in 2006. These investments are discussed below:

Gas Sur S.A. (Gas Sur)

Gas Sur was created to capitalize on the introduction of natural gas to the 8th region of Chile. Natural gas is an energy alternative that is safer, more convenient and more economical than propane, which was the preferred energy source prior to the introduction of natural gas. Natural gas continues to have a competitive price advantage over propane.

Gas Sur generated net earnings in 2006 of approximately $2.3 million compared to $1.4 million in 2005. Highlights during 2006 include the initiation of natural gas distribution in the city of Los Angeles (population of approximately 120,000). Sales volumes distributed to the approximate 30,000 customers in 2006 were 29.4 million cubic metres, which was 20% higher than the previous year.



As one of its major initiatives in 2006, Gas Sur brought natural gas services to the city of Los Angeles in the 8th region of Chile. Pictured here is Los Angeles' largest hospital, one of the over 400 new customers that Gas Sur connected in Los Angeles in 2006.

Igasamex USA Ltd. (Igasamex)

Igasamex, a company based in Mexico City, provides natural gas transmission services to Mexico's industrial sector. During 2006, Igasamex connected 12 new industrial customers, bringing its total number of customers to 87, constructed three new pipelines and grew its revenues from related services such as providing nomination and operating and maintenance services to industrial customers. Igasamex achieved net earnings of $1.5 million in 2006 which was comparable to earnings in 2005.

Swan Valley Gas Corporation (SVGC)
The distribution system serves 231 customers located primarily in the town of Swan River.

SVGC had its most profitable year in 2006 since its inception in 2000. SVGC recorded net earnings of $311 thousand in 2006, based on net revenues from distribution service of $189 thousand and a positive commodity margin of $122 thousand. In comparison, SVGC recorded earnings of $25 thousand in 2005, based on net revenues from distribution service of $56 thousand, partially offset by a loss on commodity sales of $31 thousand.

The financial outlook for the utility has improved with a new commercial arrangement with its largest customer. Also, SVGC applied to the Manitoba Public Utilities Board (MPUB) for an increase to distribution delivery service rates that was approved effective February 1, 2006.

Similar to other regulated utilities, SVGC sells natural gas to distribution system customers with the intent that it will neither realize a gain nor incur a loss from the sale of the commodity. However, due to fluctuating natural gas prices in any particular year, SVGC may experience a gain or loss, which will require it to apply to MPUB to either recover or refund these amounts through future rates.

Commodity revenues of $761 thousand exceeded the commodity cost of gas sold by $122 thousand creating a positive margin. During 2006, SVGC received approval from MPUB to retain a commodity rate rider designed to gradually collect the accumulated balance of past years costs associated with natural gas transportation that was incurred by SVGC but not recovered from customers. At December 31, 2005, the balance of the Purchase Gas Variance Account (PGVA) was $417 thousand. During 2006, $122 thousand was recovered reducing the accumulated balance in the PGVA to $295 thousand at December 31, 2006.

Saskatchewan First Call Corporation (*Sask 1st Call*)
In 2006, *Sask 1st Call* fielded 76,900 requests for line locates and generated revenues of $424 thousand and expenses of $397 thousand. This compared favourably to 2005, when *Sask 1st Call* had 74,000 line locate requests and generated revenues of $417 thousand and expenses of $407 thousand. The net earnings of *Sask 1st Call* were consistent with 2005 as well as with 2006 target levels.

SaskEnergy Nova Scotia Holdings Ltd. (SNSHL)
SNSHL holds a 50.1% equity interest in Heritage Gas Limited (Heritage Gas). The remaining 49.9% ownership interest is held by Silgascorp Inc. (a wholly owned subsidiary of Scotia Investments Limited) (25%) and AltaGas Utility Holdings (Nova Scotia) Inc. (24.9%).

Heritage Gas was formed in 2002 for the purpose of distributing and selling natural gas in the Province of Nova Scotia. Since Heritage Gas was awarded the franchise rights in 2003 to serve six counties in Nova Scotia, it has constructed over 120 kilometres of pipelines and is providing service to 733 residential, commercial and industrial customers. The operations of Heritage Gas are regulated by the Nova Scotia Utilities and Review Board.

During 2006, Heritage Gas was actively engaged in the development of the natural gas franchise in Nova Scotia. As a relatively new franchise, growing the customer base is a critical focus. Over the course of the year, Heritage Gas expanded its customer base by activating an additional 385 customers. In addition, Heritage Gas installed 423 service lines during the year and has achieved a cumulative total of 1,331 customers who have signed Distribution Service Agreements.

The increase in the number of customers was achieved primarily in Heritage Gas' core markets of Dartmouth and Amherst as well as from its recent expansion to the Halifax International Airport. Overall, this expansion resulted in capital expenditures of $19 million. At December 31, 2006, Heritage Gas had invested a cumulative total of $52 million in its distribution pipeline system.

Heritage Gas relies predominantly on the three shareholders for funding necessary to grow and sustain operations during this expansionary phase. SNSHL has invested its proportionate share through both equity investments and loans to Heritage Gas. At December 31, 2006, SNSHL had invested equity totalling $9.9 million and made interest-bearing loans of $15.0 million for a total cumulative investment of $24.9 million in Heritage Gas.

Another source of funding for Heritage Gas was secured in 2005 when the Province of Nova Scotia's Gas Market Development Fund provided Heritage Gas with $7.6 million to assist with developing a market for natural gas produced from offshore reserves. The funding consisted of a $7.6 million loan with a provision that $2.0 million of the loan will be forgiven upon the achievement of a specified level of capital investment, which was reached by the end of 2006.

Heritage Gas distributed 471 Terajoules (TJ) to customers in 2006, compared to 140 TJ in 2005. These higher volumes distributed resulted in 2006 distribution revenues of $1.4 million compared to $0.5 million in 2005.

Similar to other Canadian natural gas utilities, Heritage Gas sells natural gas to its customers with the expectation that it will neither realize a gain nor incur a loss on the sale of the commodity. During 2006, Heritage Gas recorded $4.2 million in revenue from the sale of natural gas, which was $13 thousand more than the cost of natural gas sold. The remaining Gas Cost Variance Account balance of $16 thousand will be recovered from customers through future rate adjustments.

Heritage Gas has approval from the Nova Scotia Utility and Review Board to utilize a Revenue Deficiency Account (RDA). The RDA accumulates the difference between actual distribution revenue and the amount that would be required to earn the approved rates of return. The amount in the RDA increased in 2006 by $4.9 million resulting in a cumulative balance of $10.3 million at December 31, 2006, compared to $5.4 million at December 31, 2005. The balance in the RDA will be recovered from customers over a period of years when the actual distribution revenue exceeds the revenue required to earn the approved rates of return.

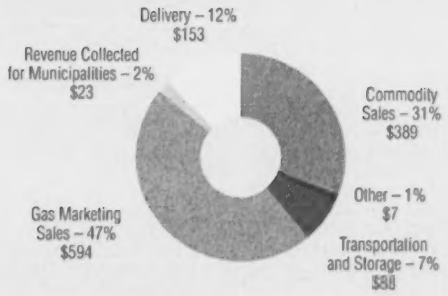
Through the use of the RDA, Heritage Gas recorded net earnings in 2006 of $2.3 million – an increase of $0.8 million over net earnings of $1.5 million in 2005. Accordingly, SNSHL's net earnings for 2006 were $1.6 million, compared to $1.0 million in 2005. This level of earnings was $0.2 million below the level assumed in the 2006 budget.

CONSOLIDATED

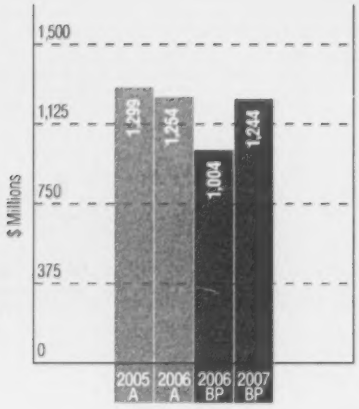
Overall, consolidated net earnings in 2006 were $53 million compared to $77 million in 2005. The decline in net earnings in 2006 relative to 2005, resulted primarily from the commodity loss of $6 million in 2006, which was $17 million below the positive margin of $11 million reported in 2005. Lower net earnings from natural gas marketing activities ($9 million), and lower distribution delivery revenue ($3 million) further contributed to the unfavourable earnings in 2006 relative to 2005. These variances were partially offset by approximately $5 million in expense reductions, primarily from lower operating and maintenance expenditures as well as lower financing costs, and higher other revenue.

The 2006 budget for consolidated net earnings was $78 million. Actual net earnings of $53 million were $25 million below budget. The variance from budget net earnings was primarily the result of a lower commodity margin ($28 million) and lower distribution delivery revenues ($10 million), partially offset by a higher than anticipated natural gas marketing margin ($10 million) and reductions to operating expenses ($3 million).

The next section entitled "Analysis – Consolidated Financial Results" provides further discussion of the 2006 consolidated financial results.



REVENUE 2006
($ MILLIONS)



REVENUE

A = Actual BP = Business Plan

REVENUE

SaskEnergy's 2006 revenue was approximately $1,254 million, a decrease of $45 million (3.5%) from 2005. This reduction was mostly attributable to lower revenue from natural gas marketing sales ($50 million), less revenue collected for municipalities ($5 million) and lower distribution delivery revenue ($3 million), partially offset by higher commodity sales ($13 million.)

SaskEnergy's revenue is primarily generated from the following:

- SaskEnergy - Distribution Division which provides natural gas commodity and delivery services to customers in the Province of Saskatchewan;
- SaskEnergy, TransGas Limited and Bayhurst Gas Limited which all conduct natural gas marketing activities;
- TransGas Limited which operates the major natural gas transmission pipeline system within Saskatchewan providing transmission and storage services.

COMMODITY SALES AND COST OF GAS SOLD

In 2006, SaskEnergy had commodity sales of $389 million (53 PJ) compared to commodity sales of $376 million (52 PJ) in 2005. The commodity rate was $7.95/GJ from January 1 to March 31, $6.80/GJ effective April 1 to October 31 and $7.17/GJ from November 1 to December 31. This equates to an average commodity rate of $7.28/GJ, which was higher than the average rate of $7.20/GJ in 2005.

The commodity cost of gas sold was $395 million in 2006 compared to $365 million in 2005. Included in the cost of gas sold are changes in the market value of certain financial instruments used to manage the risk associated with the volatility of natural gas purchase prices. The net effect of the change in market value of these financial instruments in 2006 was to increase the cost of natural gas sold by $9 million. In 2005, the change in market value of these instruments increased the cost of gas sold by $15 million. Changes in market value are not necessarily indicative of the final settlement amounts.

As noted earlier, SaskEnergy received $21.9 million in funding from the Government of Saskatchewan during 2005 under Saskatchewan Energy Share specifically for the purpose of reducing the cost of natural gas sold to consumers to $7.95/GJ for November and December 2005. Also in accordance with the terms of Saskatchewan Energy Share, SaskEnergy received $31.7 million in 2005 to pay for under-recovered natural gas costs incurred prior to October 31, 2005. Further funding from Saskatchewan Energy Share of $20.5 million was provided to SaskEnergy to reduce the cost of natural gas to $7.95/GJ from January 1, 2006 to March 31, 2006.

The foregoing factors, taken together, resulted in an overall average cost of gas of $7.45/GJ which exceeded the average commodity revenue rate of $7.28/GJ, thereby creating a commodity loss of $6 million.

GAS MARKETING SALES AND COST OF GAS SOLD

The Corporation engages in natural gas marketing activities to maximize use of the natural gas distribution utility's transmission and storage capacity during off-peak periods. To fully utilize its contracted capacity, the SaskEnergy - Distribution Division may purchase and sell natural gas in the open market to earn a margin. SaskEnergy also competes to supply natural gas to larger end-use customers in Saskatchewan through non-regulated contract sales.

Natural gas from a decommissioned storage facility in west-central Saskatchewan is being removed and sold in the open market. In addition, TransGas and Bayhurst leverage their existing storage capacity to buy and sell natural gas in the open market to earn a margin.

Gas marketing sales in 2006 were $594 million. This represented a $50 million decrease from 2005 levels of $644 million. Gas marketing cost of gas sold of $558 million in 2006, was $41 million lower than 2005 cost of gas sold of $599 million. A combination of both lower prices and reduced sales volumes in 2006 versus 2005 resulted in lower natural gas marketing sales and costs. As a result, the net margin from natural gas marketing activities of $36 million in 2006 was $9 million below the margin achieved in 2005 of $45 million.

DELIVERY

Delivery revenue totalled $153 million for 2006, which was $3 million less than in 2005. The revenues for these years were both affected by warmer than normal winter weather – 2006 was 6% warmer than normal (3% warmer in 2005). In 2006, SaskEnergy added 2,908 net new customers. This strong number was due in part by SaskEnergy's ability to provide a natural gas commodity service to the Saskatchewan residents of Lloydminster, accounting for more than 800 new customers. Strong customer growth in Regina and Saskatoon has been somewhat offset by declines in rural areas within the Province. The effects of customer growth were more than offset by lower average consumption per customer due to both warmer than normal winter weather and as a result of energy conservation practices of customers.

TRANSPORTATION AND STORAGE

During 2006, combined transportation and storage revenues were $88 million, comparable to 2005. Transportation and storage revenues are dependent on the amount of capacity that is contracted for natural gas receipts and deliveries, total energy receipts and deliveries on the system as well as service rates in effect during the year.

There were 1,472 natural gas wells drilled during 2006, which marks the third consecutive year of decline in Saskatchewan drilling and represents a 15% reduction from the 1,737 natural gas wells drilled during 2005. This decline was a contributing factor to the reduction of 15 TJ/day (2%) of contracted receipt capacity in 2006 from the average of 674 TJ/day in 2005.

Total intra-Saskatchewan deliveries and contract capacity levels in 2006 were comparable to levels achieved in 2005. However, contracted capacity and deliveries for natural gas exports out of the Province were higher in 2006 than in 2005. Average export contracted demand capacity of 355 TJ/ day in 2006 was 4% higher than 2005 levels and total export deliveries were 2% higher than deliveries in 2005. Warmer than normal winter weather in the Province reduced the demand for natural gas which contributed to higher export transportation levels.

During 2006, TransGas generated a full year of revenue from two newly developed storage caverns that were placed into service during 2005.

TransGas implemented an average 2.6% rate decrease on January 1, 2006 and a further temporary reduction of 3% on June 1, 2006. The combined effects of these rate reductions were partially offset by higher contracted export and storage services, resulting in transport and storage revenues that were consistent with 2005 levels.

EXPENSES

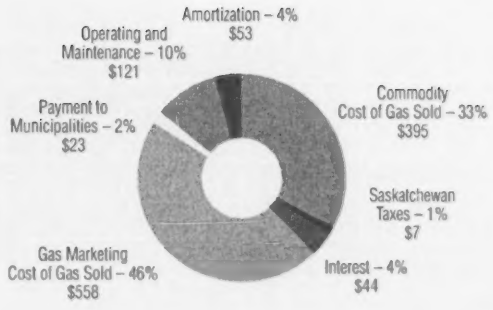
SaskEnergy's 2006 expenses were $1,201 million, a decrease of $21 million (1.7%) from 2005. Reduced expenses in 2006 resulted from lower gas marketing cost of gas sold ($41 million), operating and maintenance ($4 million), payments to municipalities ($5 million) and interest charges ($3 million), partially offset by higher commodity cost of gas sold ($30 million) and higher amortization expense ($2 million).

Operating and maintenance

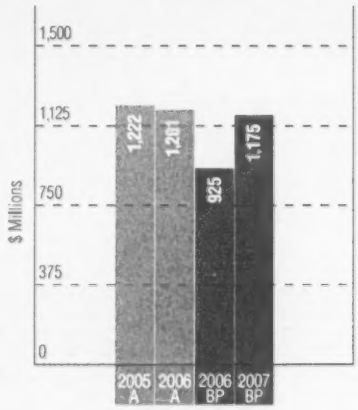
Operating and maintenance expenses in 2006 were $121 million as compared to $125 million in 2005.

Together, SaskEnergy and TransGas have an extensive transmission and distribution system throughout the southern half of the Province consisting of approximately 80,000 kilometres of pipeline. This system, which operates in extreme weather conditions and in varying types of terrain, requires substantial monitoring and maintenance each year so the Corporation can fulfill its primary objective of providing safe and reliable service.

To provide this safe and reliable service, SaskEnergy and TransGas require a workforce of approximately 1,000 employees. As a result of its labour intensive nature, in 2006, 64% of the Corporation's operating and maintenance expenses were labour related. Increased labour costs of $2 million were primarily the result of wage increases for both in-scope and out-of-scope staff as well as an increase in overtime hours worked.



EXPENSES 2006
($ MILLIONS)



A = Actual BP = Business Plan

In 2006, similar to changes brought about in 2005 for in-scope employees, the post-retirement benefits for SaskEnergy management employees were also converted to an annual contribution registered savings plan. For 2006, this change resulted in a one-time charge against earnings of $1 million. This charge will be offset by reductions in future expenses. In 2006 however, these expenses along with other related costs were $3 million lower in comparison to 2005.

Higher contract services and vehicle costs were incurred in 2006 compared to 2005, however these were more than offset by lower bad debt and other expenses as well as a reduction to damage and litigation provisions resulting in a net reduction of $1 million relative to 2005.

TransGas has over 80,000 horsepower of compression equipment and constantly monitors the optimum operational configuration of these compressor units. During 2006, TransGas realized a gain of $1 million on the sale of a compressor unit which was removed from operations in 2005. In 2006, TransGas also recorded a downward adjustment for certain storage- and compression-related assets that were considered no longer required in operations. These one-time charges of approximately $3 million were comparable to the levels recorded in 2005 to record the effect of removing two compressor units from service. Although these asset optimization activities resulted in higher charges in both 2006 and 2005, these transactions will result in lower operating, maintenance and amortization expenses in the future.

Prior to 2006, TransGas had injected propane for the purpose of increasing the heat value of a specific stream of natural gas for injection into another pipeline system. In 2006, TransGas renegotiated this requirement, thereby eliminating the need for propane enrichment. This change and other energy cost savings reduced expenses by more than $2 million compared to 2005.

Interest

Interest expense of $44 million in 2006 was $3 million less than 2005 primarily as a result of lower interest on long-term debt. In 2005, SaskEnergy borrowed $75 million of new long-term debt at 4.5% and repaid $101 million at 8.4%; the full year's impact of these actions in 2006 was to decrease long-term interest expense compared to 2005 by approximately $6 million. In 2006, SaskEnergy also repaid $42 million of debt having an average interest rate of 9.7% and issued $39 million of debt having an average interest rate of 4.6%, reducing 2006 interest expense by a further $1 million. This lower interest expense on long-term debt was partially offset by higher interest expense on short-term debt (due to larger short-term debt balances) and reduced sinking fund earnings due to a lower rate of interest earned on sinking funds investments held with the Province of Saskatchewan.

Amortization

Amortization expense of $53 million in 2006 was $2 million higher than 2005 as a result of high customer connection activity in both the distribution and transmission businesses. In addition, amortization expense in 2006 included a full year of amortization for two natural gas storage caverns at Asquith that were placed in service during 2005.

Saskatchewan taxes

The Corporation makes payments to the Province in the form of corporate capital taxes on capital employed. Payments also include mitigation payments and property taxes. The combined amount of these Saskatchewan taxes was $7 million which was comparable to 2005.

OBJECTIVE: Strengthen the financial position of the organization with prudent growth and capital investment.

DELIVERING SHAREHOLDER VALUE – FINANCIAL INTEGRITY

Measures	2005 Actual	**2006 Actual**	2006 Target	2007 Target	2008 Target	2009 Target
Debt to Equity Ratio (%)						
- SaskEnergy	65/35	**65/35**	65/35	65/35	65/35	65/35
- TransGas	65/35	**65/35**	65/35	65/35	65/35	65/35

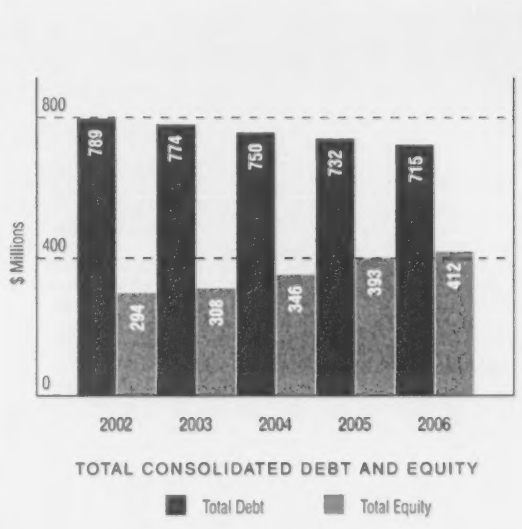
MEASURES - FINANCIAL INTEGRITY

Advances made by the Corporation to preserve its financial integrity are valued by the Owner. In this context, financial integrity refers to the strength of the capital structure and its appropriateness for the Corporation given the inherent risks of the business. The measure used to gauge financial integrity is the debt to equity ratio. SaskEnergy set targets for its two major business units using this measure.

ANALYSIS – FINANCIAL INTEGRITY

For 2006, the Corporation had a target capital structure of 65% debt and 35% equity for both the transmission and distribution utilities, which is comparable to the approved levels for other natural gas utilities in Canada. These targets were successfully achieved by December 31, 2006.

In 2005, as a result of both strong financial performance and the amounts received from Saskatchewan Energy Share, the Corporation achieved its overall long-term debt to equity goal of having a consolidated debt to equity target of 65% debt and 35% equity. The focus on financial integrity has enabled the Corporation to strengthen its financial position. At December 31, 2006, the consolidated capital structure had improved to 63% debt and 37% equity.



This graph illustrates the gradual reduction of debt and growth in equity that has occurred over the last five years that enabled the Corporation to achieve its long-term target of 65% debt and 35% equity in its capital structure.

OBJECTIVE: Strengthen the financial position of the organization with prudent growth and capital investment.

DELIVERING SHAREHOLDER VALUE – PRUDENT GROWTH

Measures	2005 Actual	2006 Actual	2006 Target	2007 Target	2008 Target	2009 Target
Capital Investment ($ Millions)						
- SaskEnergy	27	**33**	40	35	35	28
- TransGas	34	**34**	36	35	25	20

MEASURES – PRUDENT GROWTH

SaskEnergy and TransGas undertake extensive capital programs each year to ensure safe and reliable service, to meet the needs of customers, and to support the effectiveness and efficiency of operations. Given the importance of these expenditures, the Corporation has developed a set of measures to monitor and manage performance with respect to both sustaining and growing transmission, distribution and storage infrastructure. The measures selected provide a separate focus for both the SaskEnergy - Distribution Division and TransGas capital programs.

ANALYSIS – PRUDENT GROWTH

The Corporation operates a capital-intensive business, and as such, invests significant capital resources annually to maintain and preserve its distribution and transmission infrastructure. Each year, the Corporation rigorously reviews and screens capital projects to ensure that expenditures appropriately address system risks and align with SaskEnergy/TransGas' goals for safety, reliability, cost effectiveness and customer service.

SASKENERGY

SaskEnergy's capital spending of $33 million was $7 million below target, but greater than the levels required in the previous year. Despite the lower than planned spending, SaskEnergy had a very active year, installing 3,222 new customer service lines to its distribution system as well as 149 other connection activities for a total of 3,371 customer activities, which was 214 more than in 2005. This activity required capital investment of approximately $13 million, which was above planned levels and greater than 2005 levels. During 2006, SaskEnergy was successful in securing more than 800 Saskatchewan homes and businesses within Lloydminster as customers. Another important development was SaskEnergy's commitment to provide natural gas service to the communities of La Ronge and Weyakwin. Having received a sufficient number of customer commitments, SaskEnergy intends to proceed with the project in 2007.

The lower than target capital spending was primarily the result of changes in the timing for the commencement and implementation of information system projects ($5 million), as well as lower vehicle ($1 million) and building requirements ($1 million). Lower technology-related capital expenditures relate to changes in the timing for the implementation of the Truck Office Project. Through this investment, SaskEnergy expects to improve service levels, realize improved operational efficiencies and provide added safety for service technicians working in the field.

Another major project planned for 2006 was the replacement of the software used to support natural gas supply management and procurement. A decision was made to reschedule this project until 2007 to provide greater time during 2006 for the vendor identification and selection processes that are especially critical to the success of this project given the specialized nature of the software.

Although these deferrals have resulted in lower spending in 2006, they have afforded greater time to seek out the best partners for these projects and to ensure a well-defined project plan, both of which will help ensure successful implementation.

TRANSGAS

TransGas capital spending of $34 million was $2 million below target, and less than the level required in 2005. Similar to 2005, TransGas had an active year with system expansion activities. TransGas completed 10 customer receipt tie-in projects and two modifications, which required capital expenditures of $8 million to expand the transmission system. This receipt-related capital investment provided producers with the capacity to increase natural gas flow onto the TransGas system by approximately 82 TJ/day.

Development of the two remaining underground natural gas storage caverns at the Asquith natural gas storage facility west of Saskatoon was a key component of TransGas' storage-related capital expenditures during the year. TransGas worked on the final two caverns at Asquith in 2006, which will be available for use during fall 2007. At Unity in west-central Saskatchewan, TransGas completed a horizontal well to increase deliverability at its storage operation. Another major project involved the replacement of an aged and undersized compressor unit at the Melville storage facility with a new unit that will expand storage capabilities at this location. Total 2006 capital expenditures of $12 million to expand TransGas' storage capabilities were $4 million higher than target.

The balance of the capital expenditures of $14 million was required for sustaining the transmission infrastructure as well as providing for general plant requirements such as computer technology as well as vehicles and equipment. The lower than planned capital expenditures of $6 million were primarily related to these capital requirements.

The target for 2006 capital included a provision related to potential capital costs associated with optimizing compression-related assets. This category included an estimate of costs associated with refurbishing, rationalizing and optimizing the compression equipment in use by TransGas. During 2006, a more detailed analysis and review was undertaken that identified requirements that were both smaller in scale and lower in cost from original expectation. These savings represented approximately $3 million with the balance of the variance the result of lower requirements for system integrity initiatives, measurement equipment, and general plant items.

Although the level of spending during 2006 was below expectations, both TransGas and SaskEnergy completed all critical system integrity and maintenance projects to ensure the continued provision of safe, reliable service.

INVESTING FOR SASKATCHEWAN

In addition to distribution- and transmission-related capital investments, SaskEnergy has pursued select business opportunities outside the Province. Capital investments in these businesses are not separately tracked on the scorecard; however, the financial results are included within the target for subsidiary net earnings. Therefore, these investments are expected to generate incremental revenue and make a positive contribution to consolidated net earnings.

SEII has invested in two natural gas companies – Gas Sur and Igasamex. To December 31, 2006, SEII invested $13.6 million for a 30% equity interest in Gas Sur, and $10.7 million for a 40.1% equity interest in Igasamex. No incremental investments were made in either of these companies during 2006.

Heritage Gas is the Nova Scotia natural gas distribution utility in which SaskEnergy holds a 50.1% equity interest. In 2006, SaskEnergy invested a further $9.8 million in Heritage Gas through a combination of loans and equity financing, thereby bringing the Corporation's cumulative investment to $24.9 million at December 31, 2006. Of this amount, $9.9 million comprises cumulative equity investment.

In December 2006, Heritage Gas was successful in its application to the Nova Scotia Utility and Review Board to establish new rates over the next five-year test period, which commenced on January 1, 2007. The Nova Scotia regulator approved the application including Heritage Gas' detailed operational and capital plans that include the expansion of the distribution network to provide service to the Halifax Peninsula.

OUTLOOK

FINANCIAL INTEGRITY

SaskEnergy posted strong financial results from operations in 2006, exceeding the levels achieved in 2005. While the volatility of the natural gas market did have adverse impacts on overall consolidated earnings in 2006, SaskEnergy is confident about the future financial performance from operations. Looking forward to 2007 and over the next five years, SaskEnergy anticipates strong financial results with annual consolidated net earnings in the range of $60 - $70 million.

In 2007, SaskEnergy will create value for the Owner by generating an industry-comparable rate of return on equity from utility operations, paying dividends, and maintaining a prudent long-term capital structure. From 2007 to 2009, the Corporation expects to pay aggregate dividends in excess of $150 million and forecasts that the capital structure can be maintained at the long-term target of 65% debt and 35% equity.

SaskEnergy is committed to maintaining cost-effective operations and providing value-added services to customers. This commitment is reflected through ongoing programs to control costs and implement innovative practices designed to improve the effectiveness and efficiency of service delivery. These efforts have a favourable impact on the rates charged for providing service to both SaskEnergy's distribution and TransGas customers.

SaskEnergy has managed to contain costs and maintain stable rates for its distribution customers. SaskEnergy's last delivery rate increase – a modest 2.3% – occurred in 1997. SaskEnergy has been able to maintain these service rates through efforts to reduce borrowing costs and savings realized on transportation and storage expenses. While SaskEnergy has enjoyed the benefits of declining costs, the future outlook contains both increasing cost pressures as well as lower distribution sales volumes. The effects of customer energy efficiency measures are allowing customers to lower their natural gas consumption, thus lowering the outlook for distribution revenue in the future. The combination of these two factors suggest modest rate pressure for distribution delivery service rates over the next few years.

On January 1, 2007, TransGas implemented a 2.0% rate increase, which is the first increase since 2003. In each of the previous three years, TransGas has lowered rates in the range of 2-3%. This increase is the result of lower anticipated natural gas volume flows on the TransGas system. Despite lower anticipated costs of providing service in 2007, TransGas expects even greater reductions in revenues that more than offset these expense savings.

CAPITAL INVESTMENT

The 2007 capital program identifies net capital expenditure requirements of approximately $70 million to support both the growth and maintenance of the Corporation's distribution and transmission pipeline systems. Within this capital program, a major focus will be directed towards serving the demand for incremental firm storage service in Saskatchewan. This multi-year initiative will involve enhancements to existing storage facilities as well as the potential development of new facilities which will commence in 2007 and continue over the next few years. This expansion is targeted to add 7.7 PJ of incremental storage capacity which has already been fully subscribed by customers who have made commitments to contract for this service when it becomes available.

Another major project is the expansion of the distribution system to serve the La Ronge area in north-central Saskatchewan. This project will require total capital expenditures in the range of $20 million to construct both the transmission and distribution facilities required to serve this community.

In the next few years, SaskEnergy is planning to address significant technology investment opportunities. In 2007, SaskEnergy will be actively working on the implementation of mobile dispatching technology which will leverage the reach of existing resources enabling more efficient levels of service and greater operational effectiveness. Also in 2007, SaskEnergy is planning to initiate project planning options for a new customer service information system. SaskEnergy has been using a customer billing system that is over 20 years old and is exposed to increasing risk and expense through the use of this system. Furthermore, this system was designed before the advent of electronic commerce. It is based on technology that is not well aligned to the demands of today's business environment which has much higher requirements and expectations for a system's ability to adapt to changes in customer preferences, business processes and technology.

With an extensive infrastructure throughout the Province including more than 80,000 kilometres of pipeline, ensuring safe and reliable service is a major priority for SaskEnergy and TransGas. To ensure the continuation of safe, reliable service, over 30% of the consolidated capital budget is committed to sustaining and improving transmission- and distribution-related facilities and infrastructure.

GROWTH

SaskEnergy's strategic plan places an emphasis on growing the business through incremental infrastructure investments and the development of new service offerings. SaskEnergy has developed a wide range of skills and expertise in natural gas distribution, transportation and storage that can be profitably applied to expand the business, generate incremental earnings for the Corporation and contribute to the provincial economy. In 2007, SaskEnergy will be actively exploring business opportunities that are closely aligned around its core competencies.

Gas Sur and Igasamex are both progressing in terms of connecting new customers and achieving greater market presence. In 2006, the earnings from these two investments were sufficient to recover operating costs and generate a positive contribution to consolidated net earnings. In the coming year, SEII will work closely with its investment partners in both Chile and Mexico to continue to develop and grow these investments.

Heritage Gas received approval from its regulator to establish delivery rates for the next five-year test period, based on an application that was filed with the Nova Scotia Utility and Review Board in 2006. Within the application, Heritage Gas provided full disclosure of its operational and capital expansion plans that underpin the service rate outlook for the next five years. The regulatory approval has provided a positive endorsement of the business outlook for Heritage Gas.

A major undertaking for Heritage Gas in 2007 will involve crossing the harbour to expand natural gas service to the Halifax Peninsula. SaskEnergy anticipates its proportionate share of investment in Heritage Gas to be approximately $10 million for 2007 to help finance the company's plans to expand natural gas service to the Halifax Peninsula, as well as further expansion in Dartmouth and Amherst.

LOOKING FORWARD

SaskEnergy is excited about leveraging the energy, talent and abilities of its employees to deliver on its vision of creating superior value through innovative energy solutions. The new strategic plan has set the direction for SaskEnergy and outlines the major actions and priorities the Corporation will pursue for the next several years. This plan calls for a strong focus on employees and the customer, the prudent and efficient management of resources, and a commitment to operational excellence, which will ensure the achievement of strong financial results, while ensuring high levels of customer satisfaction and competitive rates. SaskEnergy is committed to meeting superior performance standards, and remains focused on performance to ensure it delivers both value and service to its customers, its Owner and the people of Saskatchewan.

SENSITIVITY ANALYSIS

SaskEnergy's financial results are sensitive to changes in a number of key factors. The following are the factors that can cause the greatest variability in earnings:

DESCRIPTION OF THE RISK	FACTOR	SENSITIVITY	IMPACT ON ANNUAL NET EARNINGS *($ MILLIONS)*
Natural gas prices fluctuate in the market and can affect earnings if there is a change in the market price per Gigajoule with no accompanying change to SaskEnergy's approved commodity rates.	Natural gas prices	$0.10 change per Gigajoule	Decrease: Higher gas prices $(5.3) — Increase: Lower gas prices $5.3
Foreign exchange can affect earnings as a change in value of Canadian currency relative to United States currency impacts natural gas prices in Canada. This in turn may affect commodity purchase costs incurred by SaskEnergy.	Foreign exchange impact on natural gas prices	$0.01 change to foreign exchange rates	Weaker CDN $ $(4.7) — Stronger CDN $ $4.7
Winter weather fluctuations can affect earnings. Revenue forecasts are based on the assumption of normal winter weather defined as the average weather experienced over the last thirty years.	Winter weather	1% change in winter weather	Warmer than normal $(0.7) — Colder than normal $0.7
TransGas receipt contracted volumes are affected by the capacity contracted by shippers for the transportation of their natural gas.	TransGas receipt contracted volumes	1% change to contracted levels	Decreased contracting $(0.6) — Increased contracting $0.6
Short-term interest rates affect the cost of short-term borrowing.	Short-term interest rates	0.25% change in short-term interest rates	Increased rates $(0.2) — Decreased rates $0.2

These sensitivities are intended to be illustrative of the relationship between the factors and financial performance and are not intended to reflect the likelihood of this variability.

LIQUIDITY AND CAPITAL RESOURCES

SaskEnergy has sufficient capacity to satisfy its liquidity and capital expenditure requirements. The Corporation has authority to borrow up to $400 million of temporary loans from the Province of Saskatchewan's General Revenue Fund and has a $35 million line of credit with the Toronto-Dominion Bank to meet short-term cash requirements. These credit lines, together with cash generated from operations are more than sufficient to manage the liquidity risk associated with buying natural gas in a market characterized by high price volatility. Natural gas prices can increase substantially over a short period of time and increase the cost of gas purchased. While commodity rates are designed to recover these costs from customers, a sudden increase in natural gas costs may increase cash outflows over the short term.

Due to the nature of SaskEnergy's distribution utility business, cash flows tend to be cyclical as winter weather affects revenue, while natural gas purchase volumes occur equally throughout the year. Consequently, cash receipts tend to exceed cash expenditures from December to May, while cash expenditures tend to exceed cash receipts from June to November. As a result, SaskEnergy relies on temporary loans from the Province of Saskatchewan to finance natural gas injections into storage during the summer. These loans are repaid between December and May as customers pay for natural gas consumed for heating purposes during the winter months.

SaskEnergy's access to long-term capital is strengthened by its ability to borrow debt through the Province of Saskatchewan. Almost all of SaskEnergy's outstanding long-term debt is owed to the Province of Saskatchewan. As SaskEnergy's borrowing requirements represent a small portion of the Province's total financing activities, and the credit capacity of the Province remains strong, SaskEnergy continues to have sufficient access to long-term capital to finance its current and anticipated capital expenditures. In addition, SaskEnergy's debt to equity ratio of 63% debt, 37% equity at December 31, 2006 is comparable to industry standards and provides SaskEnergy with sufficient financial flexibility to protect the financial integrity of the Owner's investment.

OPERATING ACTIVITIES

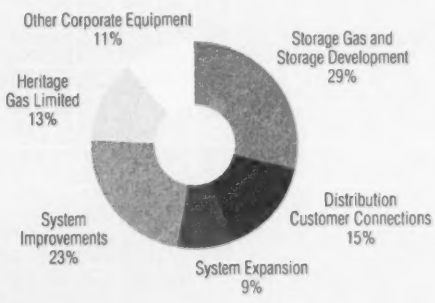
During 2006, cash provided by operating activities remained relatively unchanged from 2005. In 2006, sources of cash from operations, net of non-cash items, were approximately $22 million lower than in 2005 due to changes in the fair market value of natural gas marketing contracts and financial instruments used in natural gas price management activities. Fair market value changes are accounting adjustments only and therefore do not affect cash available to the Corporation.

($ Millions)	2006	2005
Net earnings (net of non-cash items)	$ 104.6	$ 126.5
Net change in non-cash working capital related to operations	19.3	(7.5)
Cash provided by operating activities	$ 123.9	$ 119.0

In addition to the fair market value changes, SaskEnergy also realized other offsetting non-cash working capital changes. During 2006, the value of natural gas held for resale declined from 2005 due to lower natural gas purchase prices. Similarly, lower prices for natural gas reduced the value of accounts receivable from the sale of natural gas, and the amounts payable for natural gas purchased.

INVESTING ACTIVITIES

During 2006, cash used in investing activities was $81.6 million compared to $53.4 million in 2005. Investments were made in the following projects categories:



INVESTING ACTIVITIES 2006

SaskEnergy is planning future capital expenditures of approximately $564 million over the next five years. Most of these additional capital expenditures will be made for the purpose of maintaining, improving, and expanding the natural gas transmission and distribution system within the Province. Approximately $165 million of the total amount has been budgeted for new business development projects, which, with the exception of $21 million, is expected to be invested within the Province of Saskatchewan.

FINANCING ACTIVITIES

During 2006, SaskEnergy's financing activities used $43.9 million of cash compared to $67.7 million in 2005. A significant portion of the cash used in financing activities was applied to the reduction of long-term debt.

($ Millions)	2006	2005
Debt repayments (including sinking funds)	$ (58.3)	$(95.7)
Proceeds from new debt issues	39.6	78.6
Payments of dividends	(27.5)	(50.6)
Bank indebtedness	2.3	-
Cash used in financing activities	$ 43.9	$ 67.7

In 2006, SaskEnergy's debt repayments consisted of $41.6 million of maturing long-term debt, $5.0 million of sinking fund instalments and a reduction in short-term debt of $11.7 million. Net proceeds from new debt issues including the effect of interest rate hedges was $39.6 million. Over the next three years to 2009, SaskEnergy will repay approximately $162.0 million of long-term debt. In order to finance expected capital expenditures, SaskEnergy expects to refinance all of its maturing long-term debt and issue additional long-term debt over the next three years.

Dividends declared on 2006 consolidated net earnings were higher than dividends declared on 2005 consolidated net earnings, however, the lower dividends paid in 2006 reflects a small final instalment paid in March 2006 on 2005 earnings. Also, the 2005 dividend to CIC was based on 65% of the 2005 consolidated net earnings excluding the $31.7 million recovered during 2005 from the General Revenue Fund related to Saskatchewan Energy Share.

SUMMARY

SaskEnergy has adequate capacity to meet its liquidity and capital expenditure requirements over the foreseeable future. Cash generated from operations and access to short-term funding through the Province of Saskatchewan and bank credit lines create a stable base of financial capacity for SaskEnergy's core operations and business development initiatives.

RISK MANAGEMENT

The transmission, storage, distribution and sale of natural gas present a range of business and financial risks. SaskEnergy's strategy with respect to risk management is to take only those risks it has appropriate resources, expertise and financial capacity to manage. In addition, the nature of accepted risks must be understood, as well as the impact these risks may have on operations, reputation and financial condition. The appropriate policies and procedures must be in place to respond to these risks. SaskEnergy manages the risks presented below in accordance with policies and guidelines established by the Board of Directors.

Risk Type	Significance	What is it?	Description	Impact	How is it managed?
Natural gas price risk	Very High	Risk of natural gas costs rising above the rate at which the natural gas is sold to customers.	SaskEnergy's exposure to natural gas price risk occurs primarily when the Corporation purchases natural gas at variable market prices and resells this natural gas to customers at fixed rates.	For every $1.00/GJ change in the market price of natural gas the annual purchase cost of gas is affected by approximately $53 million.	The risk of natural gas costs rising above the rate at which the natural gas is sold to customers is mitigated through SaskEnergy's natural gas price risk management program. Also, SaskEnergy accumulates differences between the cost of gas sold and its selling price in a Gas Cost Variance Account (GCVA). The balance in the GCVA may be recovered from or refunded to customers in subsequent periods.
		Risk of selling gas at a price lower than the purchase cost.	SaskEnergy buys and sells gas in its natural gas marketing business and may be exposed to price movement for short periods.	Losses are limited to less than $2 million per year by policy.	The natural gas price risk is subject to the Natural Gas Marketing Risk Management Policy, which limits the amount of exposure to price volatility and establishes a program to measure, monitor and report on natural gas price risk daily.
Winter weather risk	High	Changes in winter weather affect distribution utility revenue.	In Saskatchewan, variability in winter weather temperature has a direct impact on natural gas consumption.	For every 10% change in heating degree days SaskEnergy's delivery revenue is affected by approximately $7 million.	Part of the delivery charge is a fixed basic monthly charge which ensures SaskEnergy earns revenue from its customers regardless of the level of gas consumption.
		Variability in winter weather throughout North America has a direct impact on the prices SaskEnergy pays for natural gas.	Generally a cold winter will result in higher gas prices while a warm winter will result in lower prices.		The impact of higher or lower gas prices is discussed above.

Risk Type	Significance	What is it?	Description	Impact	How is it managed?
Interest rate risk	Moderate	Risk that changes in interest rates will increase interest expense and cost of service.	SaskEnergy has a significant capital investment in physical assets. About 65% of that investment is financed by issuing debt. The interest paid on debt used to finance assets is a significant component of SaskEnergy's cost structure.	For every $10 million of debt issued in a year, a 0.25% change in the interest rate will affect annual interest expense by approximately $25,000.	SaskEnergy manages its interest rate risk by requiring all long-term capital requirements to be financed with long-term fixed rate debt, thereby minimizing the impact of changing interest rates on financial results. Furthermore, SaskEnergy manages the maturity dates on its debt to minimize the impact of interest rate risk in any single year. In addition, SaskEnergy may use financial instruments to hedge short-term debt from changes in interest rates.
Provincial economy	Low	Economic growth affects growth in SaskEnergy's core business.	SaskEnergy currently serves more than 92% of all communities in Saskatchewan. Increasingly, it is becoming more difficult to economically expand service to areas not currently receiving natural gas distribution service. Opportunities to expand service depend upon continued economic growth within the existing service area.	Growth in the number of customers within the existing service area helps to reduce the unit cost of service.	SaskEnergy has cost containment strategies to ensure that rising costs do not significantly exceed the growth of the system. Service is only expanded where the anticipated incremental revenue is sufficient to recover incremental cost of service to ensure that existing customers are not adversely affected by the addition of new customers.
		Population dispersion.	Population is in decline in certain rural service areas and the growth of urban centres has put added demand pressure on urban distribution systems.	Higher system costs.	SaskEnergy has franchise rights to provide distribution service to customers within Saskatchewan and an implied obligation to meet customers demand where economically feasible.
Declining system throughput	Low	Declining natural gas reserve life.	While there are currently adequate supplies of natural gas to meet demand within Saskatchewan, the age and declining reserve life of the Western Canadian Sedimentary Basin remains a longer-term issue.	As throughput declines, the unit cost of service increases.	SaskEnergy promotes the conservation efforts of its customers. Further into the future, non-conventional sources of natural gas such as the Mackenzie Valley Pipeline, Natural Gas in Coal, and liquified natural gas will supplement conventional supplies.
		Conservation initiatives.	Conservation initiatives by customers have reduced the average volume of natural gas usage per customer. Conservation initiatives tend to have a higher impact on customer usage in a high natural gas price environment.	As use per customer declines, the fixed costs of the pipeline system are recovered over lower sales volumes.	SaskEnergy incorporates an assumption for declining use per customer in its revenue forecasts and rate-setting process.

Risk Type	Significance	What is it?	Description	Impact	How is it managed?
Operational risk	High	Risk of disruption to the delivery of service from SaskEnergy's natural gas storage, transmission and distribution infrastructure.	Examples of operational hazards include severe weather conditions, fire, human error, mechanical failures, third party encroachment on a pipeline, hazardous materials, and acts of civil disobedience, sabotage, and riots.	Operational risks can cause outages which affect SaskEnergy's ability to provide service and therefore result in lost revenue. In addition, operational risk can threaten employee and public safety and cause damage to pipelines which require financial investments to repair.	SaskEnergy mitigates its operational risks through public awareness programs, employee and operator training, operating manuals and procedures, and safety programs. In addition, the financial impact of these risks is mitigated, where possible, through the purchase of insurance. Additionally, the pipeline system is designed to meet customer demand in an extremely cold winter and, consequently, there is usually substantial redundancy within the system to meet demand even in the event of a disruption.
Counterparty credit risk	High	Risk of financial loss resulting when a counterparty fails to meet its financial obligations under a contract.	Failure of a counterparty to fulfill contractual financial commitments due to financial distress such as bankruptcy and insolvency.	SaskEnergy limits the amount of credit it extends to individual counterparties such that the expected loss from credit risk should not exceed $3.5 million per year, on average, and should never exceed $25 million in a single year.	SaskEnergy mitigates its credit risk by constantly reviewing the credit worthiness of large customers and contractual counterparties; limiting the maximum amount of credit extended to any entity; and by continually monitoring customer and counterparty credit. Additionally, credit checks and reviews are performed before any transactions are completed, and entities judged to have inadequate credit are required to post security.
Customer credit risk	Moderate	Risk of financial loss resulting from a customer's failure to pay for services and product delivered.	SaskEnergy delivers natural gas to its customers and bills them for the gas delivered at the end of each month. When a customer fails to pay for the service received, SaskEnergy realizes a financial loss equivalent to the cost of the gas delivered and the cost of delivering the gas.	Bad debts of SaskEnergy's customers have historically been between 0.15% and 0.54% of distribution revenue.	SaskEnergy mitigates its credit risk by requiring new customers to provide security deposits prior to receiving service and closely monitoring payments on account. Customers who fail to pay their bills can have their service terminated and can be denied service until their outstanding account is settled.
Regulatory risk	High	Uncertainty presented by the decisions of a regulator.	In July 2000, the Government of Saskatchewan introduced the Saskatchewan Rate Review Panel (SRRP). The SRRP is a ministerial advisory committee to the Minister of Crown Investments Corporation of Saskatchewan. The SRRP's mandate is to conduct reviews of rate change requests from specific Crown corporations, including SaskEnergy.	The impact of a 1% differential between a commodity rate increase request and the approved commodity rate is approximately $3.9 million.	SaskEnergy follows standard accepted regulatory principles in designing rates and operating its system and presents these practices together with its rate applications. The recommendations of the SRRP are subject to final approval by Provincial Cabinet.

Risk Type	Significance	What is it?	Description	Impact	How is it managed?
Environmental risk	Moderate	Risk that the activities of SaskEnergy may cause temporary or permanent damage to the environment.	Gathering, compression, storage, transmission and distribution of natural gas involve the use of certain chemicals and materials that are considered hazardous to the environment and require special handling procedures. International greenhouse gas conventions present additional risk to SaskEnergy because methane, the largest component of natural gas, is considered a greenhouse gas. Consequently, the release of natural gas into the environment may contribute to global warming.	Uncontrolled release of liquid substances or natural gas into the environment (soil, water, and air).	The environmental risks presented by natural gas and certain chemicals and materials are mitigated by proper handling and containment procedures, product substitution as well as employee and operator training. SaskEnergy is working to reduce its greenhouse gas emissions to limit its impact on the environment and to manage the financial risks associated with this environmental issue.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles applied on a consistent basis and includes certain estimates based on Management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue, and expenses. The significant accounting policies are disclosed in Note 2 to the accompanying Consolidated Financial Statements. Certain of the significant accounting policies and estimates are summarized as follows:

Gas Marketing Sales

In Saskatchewan, the distribution utility's customers consume natural gas primarily for heating their premises. Consumption of natural gas in Saskatchewan is dependent on weather patterns, and periods exist where pipeline and storage capacity are not used to their fullest extent. To take advantage of underutilized capacity during these off-peak periods, the distribution utility may enter into transactions whereby it purchases and sells natural gas in the open market to earn a margin.

Competitive gas sales transactions may occur where the purchase price (or, in some instances, the selling price) is established initially, but the corresponding selling price (or purchase price) is not determined until a later date. During the period between the purchase or sale of the natural gas and the final settlement date, a profit or loss is recorded as the difference between the purchase price (or selling price) and the current market price.

Natural Gas Purchase Price Risk Management

The majority of natural gas purchase contracts are priced according to a monthly average market price. To assist in reducing fluctuations in purchase prices, SaskEnergy may utilize derivative financial instruments offered by financial institutions or other counterparties to exchange a variable price for a fixed price. These financial instruments result in either the receipt of funds by the Corporation or the payment of funds to the counterparty depending on whether the market price is above or below the agreed upon fixed price at settlement date. Payments made to (or received from) counterparties are included in the commodity cost of gas sold.

Revenue Recognition

Commodity sales and delivery revenues are recognized when natural gas is delivered to customers. As it is not cost-effective to read all customer meters on the same day at the end of the financial reporting period, the revenue associated with the volume of natural gas delivered but not billed as of December 31, must be estimated. The volume of unbilled sales is determined by comparing the total volume of natural gas purchased by the distribution system to the total estimated volume of natural gas delivered to customers. Volumes purchased are reconciled to volumes billed using regular meter readings.

Saskatchewan Energy Share

The Corporation received an appropriation from the Government of Saskatchewan under Saskatchewan Energy Share for the period November 2005 to March 31, 2006. The amounts eligible to be received from the appropriation were recorded in the month in which the natural gas was sold.

During January through March 2006, SaskEnergy received $20.5 million from Saskatchewan Energy Share related to the natural gas sold to customers.

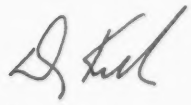
STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements are the responsibility of the management of SaskEnergy. They have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments where applicable.

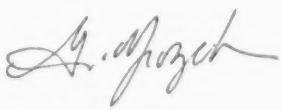
Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the financial statements and all other financial information contained in this Annual Report. Management is also responsible for maintaining a system of internal controls, policies and procedures designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial statements. The internal control system includes an internal audit function and an established code of conduct.

The Corporation's Board of Directors (the Board), is responsible for ensuring that management fulfills its responsibilities for financial reporting and control. The Board is assisted in exercising its responsibility through its Audit and Finance Committee (the Committee). The Committee is composed of independent directors who are not employees of the Corporation. The Committee reviews the Annual Report and meets regularly with management, internal audit and the external auditors to discuss internal controls, accounting, auditing and financial matters. The Committee recommends the appointment of the external auditors. The Committee reports its findings to the Board for its consideration in approving the consolidated financial statements and subsidiary financial statements.

The consolidated financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants as appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan. The Auditors' Report expresses their opinion on the fairness of the financial statements prepared by management.



Doug Kelln
President
and Chief Executive Officer
February 9, 2007



Greg Mrazek
Vice-President, Finance
and Chief Financial Officer

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2006 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 9, 2007

SASKENERGY INCORPORATED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31
(THOUSANDS OF DOLLARS)

	2006	2005
ASSETS		
Current assets		
Cash	$ -	$ 1,572
Accounts receivable (Note 4)	170,310	215,614
Natural gas in storage held for resale	110,802	139,255
Inventories of supplies	7,029	7,346
	288,141	363,787
Property, plant and equipment (Note 5)	955,169	946,947
Investments and other assets (Note 6)	32,872	32,225
Natural gas in storage held for resale and operations	46,040	28,030
	$ 1,322,222	$ 1,370,989
LIABILITIES AND PROVINCE'S EQUITY		
Current liabilities		
Bank indebtedness	$ 2,362	$ -
Short-term debt (Note 7)	68,800	80,500
Accounts payable (Note 8)	182,851	237,591
Dividend payable	12,200	5,200
Current portion of long-term debt (Note 7)	53,381	71,637
	319,594	394,928
Long-term debt (Note 7)	590,628	582,279
	910,222	977,207
Province of Saskatchewan's equity		
Equity advances (Note 9)	71,531	71,531
Retained earnings	342,535	323,878
Foreign currency translation adjustment (Note 6)	(2,066)	(1,627)
	412,000	393,782
	$ 1,322,222	$ 1,370,989

Commitments and contingencies (Note 10)

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY INCORPORATED

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

YEARS ENDED DECEMBER 31

(THOUSANDS OF DOLLARS)

	2006	2005
REVENUE		
Commodity sales	$ 388,926	$ 376,083
Gas marketing sales	594,429	643,991
Delivery	153,281	156,191
Transportation and storage	87,481	87,890
Revenue collected for municipalities (Note 11)	23,268	27,673
Other	6,561	6,901
	1,253,946	1,298,729
EXPENSES		
Commodity cost of gas sold	415,560	418,296
Saskatchewan Energy Share (Note 3)	(20,530)	(53,620)
Net commodity cost of gas sold	395,030	364,676
Gas marketing cost of gas sold	557,657	599,388
Operating and maintenance	120,968	125,075
Interest (Note 7)	43,835	46,974
Amortization (Note 5)	52,945	51,267
Payment to municipalities (Note 11)	23,268	27,673
Saskatchewan taxes (Note 12)	7,086	6,929
	1,200,789	1,221,982
Net earnings	53,157	76,747
Retained earnings, beginning of year	323,878	276,431
Dividends	(34,500)	(29,300)
Retained earnings, end of year	$ 342,535	$ 323,878

(See accompanying notes)

SASKENERGY INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31
(THOUSANDS OF DOLLARS)

	2006	2005
OPERATING ACTIVITIES		
Net earnings	$ 53,157	$ 76,747
Add (deduct) items not requiring an outlay of cash		
Amortization	52,945	51,267
Other non-cash items	(1,450)	(1,467)
	104,652	126,547
Net change in non-cash working capital related to operations (Note 13)	19,334	(7,511)
Cash provided by operating activities	123,986	119,036
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(71,464)	(58,596)
Additions to investments and other assets	(2,459)	(1,649)
Capital contributions received (Note 5)	10,297	9,843
Increase in natural gas in storage - non-current	(18,010)	(2,977)
Cash used in investing activities	(81,636)	(53,379)
FINANCING ACTIVITIES		
Increase in bank indebtedness	2,362	-
(Decrease) increase in short-term debt	(11,700)	1,600
Sinking fund redemptions	-	11,058
Sinking fund instalments	(5,040)	(5,540)
(Increase) decrease in deferred charges	891	(851)
Proceeds from long-term debt	38,662	77,806
Repayments of long-term debt	(41,597)	(101,195)
Dividends paid	(27,500)	(50,600)
Cash used in financing activities	(43,922)	(67,722)
Decrease in cash during the year	(1,572)	(2,065)
Cash position, beginning of year	1,572	3,637
Cash position, end of year	$ -	$ 1,572

(See accompanying notes)

1. STATUS OF THE CORPORATION

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

SaskEnergy and its wholly owned subsidiaries own and operate natural gas related businesses located both within and outside Saskatchewan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The impact of rate regulation on the application of Canadian generally accepted accounting principles is described in note 17. The following accounting policies are considered to be significant:

A. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., SaskEnergy Nova Scotia Holdings Ltd., Swan Valley Gas Corporation, and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership and the Corporation's 50.1 per cent proportionate share of the accounts of Heritage Gas Limited. Separate audited financial statements are prepared for each of these entities.

B. NATURAL GAS IN STORAGE

i. Natural gas in storage held for resale

Natural gas in storage held for resale (both current and non-current) is stated at the lower of cost and net realizable value. Natural gas held for resale removed from storage is accounted for on an average cost basis. Natural gas in storage held for resale classified as a current asset is the estimated amount of natural gas in storage to be sold in 2007 with the remainder classified as non-current.

ii. Natural gas in storage held for operations

Natural gas in storage held for operations is stated at cost.

C. INVENTORIES OF SUPPLIES

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

D. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	2.5	to	2.6
Distribution	2.5	to	3.5
Gathering, treatment and compression	2.5	to	3.5
Vehicles, equipment and other	2.5	to	50.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

E. INVESTMENTS

The Corporation accounts for its investments in Gas Sur S.A. and Igasamex USA Ltd. using the equity method.

F. FOREIGN CURRENCY TRANSLATION ADJUSTMENT

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in the foreign currency translation adjustment in the Province of Saskatchewan's Equity.

G. REVENUE RECOGNITION

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of natural gas delivered, but not billed as of December 31, is included in revenue.

Revenue from natural gas marketing is recorded in the financial statements upon completion of the delivery of natural gas to the customer. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale, and assuming the risks and rewards of ownership.

Revenue is recognized when transportation, transportation-related services and storage are provided to customers. An estimate of transportation, storage and related services rendered, but not billed as of December 31, is included in revenue.

Royalty revenue, included in other revenue, is recognized when natural gas is sold from wells subject to royalty agreements. Royalty revenue, accounts receivable and accrued revenue are subject to measurement uncertainty. These amounts are based on the Corporation's best information and judgment.

H. COST OF GAS SOLD

The cost of gas sold includes the cost of purchasing natural gas on the open market, risk management derivative financial instrument settlements, mark to market adjustments on outstanding risk management derivative financial instruments, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

I. GAS MARKETING SALES

Where the Corporation purchases natural gas in the open market at a fixed purchase price and simultaneously enters into agreements to sell this natural gas at a fixed selling price, the gain or loss is recorded at the time the transaction is settled.

In addition, the Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. Contracts may be structured so that the settlement price is determined in the future at the time of delivery or receipt. Changes in the value of the contract due to a change in market prices, up to the date of settlement, are recorded as gains or losses in the period of change.

J. DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses various derivative financial instruments to manage the risk associated with its operating exposures to fluctuations in foreign currency exchange rates, interest rates and the price of natural gas. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within which such derivative financial instruments may be used.

The Corporation can designate a derivative financial instrument as a hedge for accounting purposes when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized and recorded in the statement of earnings and retained earnings upon settlement of the derivative financial instruments. If correlation ceases or the Corporation terminates its designation of the derivative financial instrument as a hedge for accounting purposes, future changes in the market value of the derivative financial instruments are recognized as gains or losses in the period of change.

i. Natural gas price risk management

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, derivative financial instruments may be used for price risk management to fix the settlement amount. The types of derivative financial instruments SaskEnergy uses for price risk management include natural gas price swaps, options, swaptions and futures contracts. The Corporation may sell options to generate premium revenue, which is used to offset the cost to purchase call options.

Derivative financial instruments that do not qualify as a hedge for accounting purposes and derivative financial instruments not designated as a hedge for accounting purposes are recorded at fair value in the statement of financial position in accounts receivable, or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings and retained earnings in the cost of gas.

ii. Foreign currency exchange and interest rate risk management

The Corporation uses derivative financial instruments to manage the interest rate risk on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of managing interest rate risk, the Corporation may use forward rate agreements, options, and interest rate swaps. For the purpose of managing the exchange rate risk on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

Derivative financial instruments that do not qualify as a hedge for accounting purposes and derivative financial instruments not designated as a hedge for accounting purposes are recorded at fair value in the statement of financial position in accounts receivable, or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings and retained earnings.

K. EMPLOYEES' FUTURE BENEFITS

i. Pension plans

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan.

Under both plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

ii. **Retiring allowance plan**

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

L. DEFERRED FINANCING CHARGES

Included in deferred financing charges are issue costs, discounts and premiums resulting from the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

M. SASKATCHEWAN ENERGY SHARE

The Corporation was authorized to receive an appropriation from the Government of Saskatchewan under Saskatchewan Energy Share. The amounts eligible to have been received from the appropriation were recorded in the month in which the natural gas was sold.

3. SASKATCHEWAN ENERGY SHARE

On November 29, 2005, the Government of Saskatchewan approved an appropriation of $123,940 thousand (titled - "SaskEnergy Incorporated Vote 77") to establish Saskatchewan Energy Share. Saskatchewan Energy Share is intended to reduce the cost of natural gas sold by SaskEnergy to its rate regulated customers. The appropriation related to the period November 1, 2005 to March 31, 2006 as it was designed to assist natural gas consumers in dealing with high natural gas prices during the winter of 2005/2006.

The financial impact of Saskatchewan Energy Share is as follows:

A. Through Saskatchewan Energy Share, the Government of Saskatchewan appropriated up to $92,040 thousand which was eligible to be used by SaskEnergy to cap the cost of natural gas sold at $7.95 per Gigajoule. The appropriation related to natural gas sold to customers during the period November 1, 2005 to March 31, 2006. For each month during this period, SaskEnergy calculated its actual cost per Gigajoule of natural gas and compared this amount to the cap of $7.95 per Gigajoule. When SaskEnergy's actual cost of gas was above the cap of $7.95 per Gigajoule, the General Revenue Fund paid SaskEnergy an amount required to reduce the cost of gas down to the cap of $7.95 per Gigajoule. Accordingly, for the months of January, February and March of 2006, SaskEnergy received $20,530 thousand (2005 - $21,917 thousand) from the General Revenue Fund which has been included in the cost of gas.

B. During 2002 and 2003 SaskEnergy sold natural gas to customers below its cost. A portion of these under-recovered costs were received from customers between June, 2003 and October 31, 2005. As at October 31, 2005, SaskEnergy had not yet recovered $31,703 thousand of this past under-recovery. In order to alleviate customers from having to pay SaskEnergy for these past costs, $31,703 thousand was paid to SaskEnergy in 2005 by the General Revenue Fund. As a result SaskEnergy has been fully reimbursed for these past costs.

C. Certain natural gas consumers in Lloydminster, Saskatchewan receive their natural gas service from Direct Energy Regulated Services (a supplier based in Alberta). Under Saskatchewan Energy Share, $1,000 thousand was allocated to provide eligible Lloydminster customers with a one time credit of $200. A total credit of $550 thousand was provided to these customers in 2006. SaskEnergy reimbursed Direct Energy Regulated Services for the total amount of the credit and then in turn recovered this amount from the General Revenue Fund.

4. ACCOUNTS RECEIVABLE

(THOUSANDS)	2006	2005
Trade accounts	$ 46,042	$ 48,913
Unbilled revenue	119,834	146,961
Other accounts	4,434	19,740
	$ 170,310	$ 215,614

5. PROPERTY, PLANT AND EQUIPMENT

(THOUSANDS)	2006			2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission and storage	$ 656,930	$ 207,029	$ 449,901	$ 627,211	$ 189,961	$ 437,250
Distribution	655,938	209,933	446,005	629,883	190,999	438,884
Gathering, treatment and compression	157,724	65,673	92,051	141,256	61,309	79,947
Vehicles, equipment and other	170,338	96,908	73,430	165,735	96,030	69,705
Franchise acquisition costs	1,668	200	1,468	1,668	133	1,535
Royalty interest	6,509	6,509	-	6,509	6,509	-
Construction in progress	22,887	-	22,887	43,744	-	43,744
	$ 1,671,994	$ 586,252	1,085,742	$ 1,616,006	$ 544,941	1,071,065
Less:						
Unamortized customer capital contributions			130,573			124,118
			$ 955,169			$ 946,947

Property, plant and equipment includes $26,115 thousand (2005 - $16,850 thousand) which represents the Corporation's 50.1 per cent proportionate interest in the assets of Heritage Gas Limited.

Franchise acquisition costs relate to the costs required to acquire the franchise for the distribution of natural gas in the Province of Nova Scotia.

A. CUSTOMER CAPITAL CONTRIBUTIONS

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

(THOUSANDS)	2006	2005
Balance, beginning of year	$ 124,118	$ 117,875
Contributions received	10,297	9,843
Amortization of contributions	(3,842)	(3,600)
Balance, end of year	$ 130,573	$ 124,118

B. AMORTIZATION

(THOUSANDS)	2006	2005
Amortization of property, plant and equipment	$ 56,787	$ 54,867
Amortization of customer capital contributions	(3,842)	(3,600)
	$ 52,945	$ 51,267

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.45 per cent during 2006 (3.44 per cent during 2005).

6. INVESTMENTS AND OTHER ASSETS

Investments and other assets are as follows:

	2006		2005	
	Amount (THOUSANDS)	Per cent Ownership	Amount (THOUSANDS)	Per cent Ownership
a. Equity investments				
i. Gas Sur S.A.				
Initial investment	$ 13,784	30.0	$ 13,784	30.0
Equity earnings	1,506		864	
Foreign currency translation adjustment	(597)		(118)	
	14,693		14,530	
ii. Igasamex USA Ltd.				
Initial investment	10,880	40.1	10,880	40.1
Equity earnings	1,041		509	
Foreign currency translation adjustment	(1,469)		(1,509)	
	10,452		9,880	
	25,145		24,410	
b. Other receivables	5,167		2,708	
c. Deferred charges				
Unamortized deferred financing costs	2,560		4,170	
Unamortized past service costs	-		937	
	2,560		5,107	
	$ 32,872		$ 32,225	

Equity investments:

i. Gas Sur S.A.

The Corporation's 30 per cent share of Gas Sur S.A.'s 2006 net earnings was $642 thousand (2005 - $378 thousand). The Corporation's share of the foreign currency translation adjustment for 2006 resulted in a $479 thousand reduction in the balance of the investment in Gas Sur S.A. (2005 - $641 thousand increase). The cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand (2005 - $5,100 thousand).

ii. Igasamex USA Ltd.

The Corporation's 40.1 per cent share of Igasamex USA Ltd.'s 2006 net earnings was $532 thousand (2005 - $295 thousand). The Corporation's share of the foreign currency translation adjustment related to the investment in Igasamex USA Ltd. for 2006 resulted in a $40 thousand increase in the balance of the investment in Igasamex USA Ltd. (2005 - $342 thousand reduction). The cost of the investment exceeded the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately $4,800 thousand (2005 - $4,900 thousand).

7. LONG-TERM AND SHORT-TERM DEBT

Years to Maturity	2006 Principal Outstanding (THOUSANDS)	2006 Average Fixed Interest Rate (PER CENT)	2005 Principal Outstanding (THOUSANDS)	2005 Average Fixed Interest Rate (PER CENT)
Province of Saskatchewan				
1 - 5	$ 241,966	7.5	$ 308,564	7.6
6 - 10	188,662	4.9	150,000	4.9
11 - 15	33,971	6.7	33,971	6.7
16 - 35	210,000	6.9	185,000	7.1
	674,599		677,535	
Less sinking fund equity	(38,211)		(31,240)	
Less due within one year	(53,381)		(71,637)	
Due to Province of Saskatchewan	583,007		574,658	
Other	7,621	8.5	7,621	8.5
	$ 590,628		$ 582,279	

A. SINKING FUNDS

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a sinking fund. These sinking funds are administered by Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 5.67 per cent for 2006 (10.7 per cent for 2005).

B. MATURITY DATES

Maturity dates are equivalent to interest rate repricing dates.

C. PRINCIPAL REPAYMENTS

Principal repayments and sinking fund instalments due in each of the next five years are as follows:

(THOUSANDS)	2007	2008	2009	2010	2011
Principal	$ 47,705	$ 75,126	$ 39,136	$ 80,000	$ -
Sinking fund instalments	5,676	5,376	5,126	5,126	4,326
	$ 53,381	$ 80,502	$ 44,262	$ 85,126	$ 4,326

D. SHORT-TERM DEBT

During 2006, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 3.96 per cent (2005 - 3.2 per cent).

Short-term debt at December 31, 2006 consists of $68,800 thousand (2005 - $80,500 thousand) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 4.22 per cent (2005 - 3.44 per cent).

E. INTEREST EXPENSE

Interest expense was as follows:

(THOUSANDS)	2006	2005
Interest expense on long-term debt	$ 45,939	$ 52,755
Interest expense on short-term debt	2,453	426
Amortization of deferred financing costs	719	826
Sinking fund earnings	(1,932)	(3,796)
Interest allocation to cost of gas sold	(3,036)	(2,633)
Interest capitalized	(308)	(604)
	$ 43,835	$ 46,974

Cash interest paid during 2006 on long-term debt was $46,445 thousand (2005 - $53,567 thousand).

8. ACCOUNTS PAYABLE

(THOUSANDS)	2006	2005
Supplier payables	$ 119,823	$ 177,895
Interest payable	12,107	12,631
Other payables	50,921	47,065
	$ 182,851	$ 237,591

9. EQUITY ADVANCES

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

10. FINANCIAL INSTRUMENTS, COMMITMENTS AND CONTINGENCIES

Financial Instruments

A. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of the Corporation's financial instruments is listed below:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(THOUSANDS)				
Long-term debt	$ 682,220	$ 778,632	$ 685,156	$ 798,202
Sinking fund equity	38,211	39,681	31,240	33,087
Natural gas price derivatives owed to (by) SaskEnergy				
- swaps	-	5,124	(2,329)	2,362
- options	(13,302)	(13,173)	1,896	(4,090)

The fair values of the above instruments were based on the following:

i. **Long-term debt** – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. **Sinking fund equity** – The market value of the investments held in the sinking fund as at year end.

iii. **Natural gas price swaps** – The relevant index price in effect as at year end. Swap contracts have been entered into for 2007 to 2011.

iv. **Natural gas price options** – The relevant index price in effect as at year end. Option contracts have been entered into for the period January, 2007 to October, 2007.

The carrying values of other financial instruments (accounts receivable, bank indebtedness, short-term debt, accounts payable and dividend payable) approximate fair value.

B. The Corporation has entered into forward purchase agreements to purchase 4.7 Petajoules and sell 3.8 Petajoules of natural gas during 2007.

C. The Corporation has entered into natural gas price swaps with counterparties, to fix the selling price of 5.8 Petajoules committed for sale during 2007 through 2011 and to fix the purchase price of 0.4 Petajoules in 2009.

D. The Corporation has entered into natural gas price options contracts to manage the risk associated with the purchase of 0.4 Petajoules and the sale of 0.9 Petajoules of natural gas during 2007.

E. CREDIT RISK MANAGEMENT

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties. At December 31, 2006 the maximum credit exposure to a single counterparty was $5,341 thousand (2005 - $15,226 thousand).

F. GUARANTEES

SaskEnergy has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5,000 thousand (United States dollars).

G. LETTERS OF CREDIT

i. The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a $4,008 thousand (United States dollar denominated) letter of credit in favour of Scotiabank Inverlat S.A., a Mexican bank. The letter of credit was used as collateral for the Corporation's share of a line of credit issued to Igasamex USA Ltd. Scotiabank Inverlat S.A. may draw upon this letter of credit if Igasamex USA Ltd. defaults under the terms of its loan agreement with Scotiabank Inverlat S.A.

ii. The Corporation has posted a $10,000 thousand letter of credit with NGX Financial Inc. (NGX) as security for gas purchase and sales transactions conducted by SaskEnergy on the NGX natural gas exchange in Alberta. NGX may draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of natural gas as per the related contract.

Leases

Lease payments are as follows:

2007	2008	2009	2010	2011	THEREAFTER	TOTAL
(THOUSANDS)						
$ 1,629	$ 1,625	$ 1,582	$ 2,388	$ 111	$ -	$ 7,335

11. REVENUE COLLECTED FOR AND PAID TO MUNICIPALITIES

A. NATURAL GAS DISTRIBUTION

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five per cent or three per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the consolidated statement of earnings. In 2006, revenue collected and paid to municipalities was $20,542 thousand (2005 - $20,737 thousand).

B. NATURAL GAS TRANSMISSION

In accordance with the provisions of *The SaskEnergy Act*, TransGas Limited (TransGas) is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to those municipalities. The revenue collected is classified as revenue collected for municipalities, and the amount paid is classified as payments to municipalities on the statement of earnings. In 2006, revenue collected and paid to municipalities was $2,726 thousand (2005 - $6,936 thousand).

12. SASKATCHEWAN TAXES

(THOUSANDS)	2006	2005
Corporate capital tax	$ 5,424	$ 5,350
Mitigation payments and property taxes	1,662	1,579
	$ 7,086	$ 6,929

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

13. NET CHANGE IN NON-CASH WORKING CAPITAL

(THOUSANDS)	2006	2005
Accounts receivable	$ 45,304	$ (41,888)
Natural gas in storage held for resale	28,453	(43,289)
Inventories of supplies	317	(503)
Accounts payable	(54,740)	78,169
	$ 19,334	$ (7,511)

14. RELATED PARTY TRANSACTIONS

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

ansactions with these related parties are
Routine operating tr amounts which approximate prevailing
settled at exchange normal trade terms. Transactions during
market prices under s outstanding at year end, are as follows:
the year, and amount

(THOUSANDS)	2006	2005
Revenue	$ 47,857	$ 39,024
Operating expenses	28,004	27,172
Customer capital contri utions	4,582	4,386
Accounts receivable	2,813	2,886
Accounts payable	514	549

rporation pays Saskatchewan Provincial
In addition, the Co ince of Saskatchewan on all of its taxable
Sales Tax to the Provi id are recorded as part of the cost of
purchases. Taxes pa
those purchases.

transactions due to and from related
Other amounts and of settlement are described separately in
parties and the terms nents and the notes thereto.
these financial stater

15. SUPPORT FOR LA RONGE NATURAL GAS SERVICE PROJECT

006 the Government of Saskatchewan
On December 4, 2 priation of $7,000 thousand (titled -
approved an appro rated Vote 77") to establish support for
"SaskEnergy Incorp ral Gas Service Project. The funding is
the La Ronge Natu SaskEnergy project to extend natural gas
required to support a eyakwin in central Saskatchewan. This
to La Ronge and W yment will supplement an investment
$7,000 thousand pa y and contributions by residential and
made by SaskEnergy rs. Funding from the General Revenue
commercial custome y, is to be received in 2007. Funding is
Fund, a related part e project obtaining the necessary service
conditional upon th customers. As a result, no amount has
commitments from Corporation's financial statements as of
been recorded in the
December 31, 2006.

16. EMPLOYEE FUTURE BENEFITS

A. PENSION PLANS

Substantially all employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $3,087 thousand (2005 - $2,925 thousand) on behalf of employees for current services.

B. RETIRING ALLOWANCE PLAN

The amounts related to the defined benefit retiring allowance plan for executive, management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

(THOUSANDS)	2006	2005
Accrued benefit liability	$ 13,962	$ 13,957
Benefits paid during the year	977	556
Net expense	1,918	4,520

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

(THOUSANDS)	2006	2005
Discount rate	4.50 per cent	4.50 per cent
Inflation rate	2.50 per cent	2.50 per cent
Average remaining employee service life	11.4 years	13.2 years

Effective January 1, 2005 the retiring allowance for employees who are members of the CEP was converted to an annual contribution to a registered savings plan. For these employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004. Entitlements, under the retiring allowance plan, earned to December 31, 2004 will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

Effective January 1, 2006 the retiring allowance for management employees was converted to an annual contribution to a registered savings plan. For these employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements, under the retiring allowance plan, earned to December 31, 2005 will be paid out to management employees upon their retirement in accordance with the terms of the plan.

17. RATE REGULATION

The impact of rate regulation on the application of Canadian generally accepted accounting principles as it relates to the regulated operations of the following entities is as follows:

A. SASKENERGY INCORPORATED (SASKENERGY)

By virtue of legislation, SaskEnergy has the exclusive authority to sell and distribute natural gas within Saskatchewan. In accordance with an Order-in-Council, the rates charged to customers for both the sale of the commodity and the distribution of natural gas are subject to review by the Saskatchewan Rate Review Panel (SRRP). The Provincial Cabinet has the authority to establish SaskEnergy's commodity and delivery rates and accordingly takes into consideration recommendations from the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for commodity and delivery revenue are as described in note 2g. SaskEnergy's delivery revenue was $146,322 thousand for 2006 (2005 - $150,507 thousand) and commodity revenue was $386,039 thousand for 2006 (2005 - $374,525 thousand).

Cost of gas sold is accounted for in accordance with the policy described in note 2h.

For those commodity sales subject to the rate-setting process described above, commodity rates charged to customers are based on the principle that SaskEnergy neither realizes a gain nor incurs a loss on sales of natural gas. Accordingly, SaskEnergy maintains a record of the differences between commodity revenue and cost of natural gas sold and accumulates these differences in a notional account referred to as the Gas Cost Variance Account (GCVA). The rate-setting process contemplates the balances reflected in the GCVA being recovered from or refunded to customers through future rate decisions of the Provincial Cabinet.

In accordance with the foregoing rate-setting process, commodity revenue is reflected in these financial statements based on the rates approved by the Provincial Cabinet applying the accounting policies disclosed in note 2g. The balances accumulated in the GCVA are not reflected in these financial statements.

The Provincial Cabinet requires that the amounts in the GCVA be audited annually by the Provincial Auditor.

B. TRANSGAS LIMITED (TRANSGAS)

By virtue of legislation, TransGas has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, the Provincial Cabinet has the authority to set transportation rates charged to shippers. Transportation rates are not subject to review by the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for transportation revenue are as described in note 2g. TransGas transportation revenue was $71,795 thousand for 2006 (2005 - $73,262 thousand).

C. MANY ISLANDS PIPE LINES (CANADA) LIMITED (MIPL)

The business activities of MIPL are regulated by the National Energy Board.

Revenue recognition policies for MIPL transportation revenue are as described in note 2g. MIPL transportation revenue was $1,674 thousand for 2006 (2005 - $1,327 thousand).

D. SWAN VALLEY GAS CORPORATION (SVGC)

The business activities of SVGC are regulated by the Manitoba Public Utilities Board. SVGC's delivery revenue was $865 thousand for 2006 (2005 - $613 thousand) and commodity revenue was $761 thousand for 2006 (2005 - $691 thousand).

E. HERITAGE GAS LIMITED (HERITAGE GAS)

The business activities of Heritage Gas are regulated by the Nova Scotia Utility and Review Board (NSUARB). The following is a description of the effects of regulation on Heritage Gas as they relate to the Corporation's 50.1 per cent interest:

i. Return on rate base

Heritage Gas is allowed to earn a return on its rate base intended to provide its shareholders with a fair return on investment and to cover the cost of interest expense on debt. The rate base is the aggregate of Heritage Gas' investment in property, plant and equipment, revenue deficiency account and deferred charges, less accumulated amortization, plus working capital excluding the interest free loan from the Province of Nova Scotia. The return is based on Heritage Gas' regulated capital structure as approved by the NSUARB.

ii. Regulatory process – delivery tariff

Heritage Gas' delivery tariffs are determined through a General Tariff Application (GTA) process which establishes the revenue requirement and the rates to be charged to various customer classes as approved by the NSUARB. The GTA process completed in 2006 established the revenue requirement and rates to be charged for the period January 1, 2007 to December 31, 2011.

iii. Revenue deficiency account (RDA)

Heritage Gas has approval from the NSUARB to use an RDA until it is fully recovered. The RDA changes based on the difference between the actual revenue billed and the weather normalized revenue required to earn the rates of return approved by the NSUARB. During Heritage Gas' customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate.

As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and, the RDA will be drawn down. Heritage Gas projects to fully recover its RDA by 2019.

The RDA as at December 31, 2006 was $5,168 thousand (December 31, 2005 was $2,709 thousand). The effect of the RDA accumulation was to increase revenue in 2006 by $2,459 thousand (2005 - $1,650 thousand).

iv. Allowance for funds used during construction (AFUDC)

Heritage Gas capitalizes an imputed carrying cost on assets under construction. The calculation method and rate of AFUDC have been approved by the NSUARB.

v. Operating expenses

The NSUARB has approved the capitalization of operating and maintenance expenses. If Heritage Gas was not subject to rate regulation, certain of these amounts would not be capitalized.

vi. Income and other taxes

Heritage Gas follows the taxes payable method of accounting for income taxes. Provision is only made for those income taxes currently payable and no future tax is recorded on timing differences between accounting and taxable income.

18. HERITAGE GAS LIMITED

The following amounts have been included in these consolidated financial statements with respect to the Corporation's 50.1 per cent interest of the Heritage Gas joint venture:

A. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(THOUSANDS)	2006	2005
Current assets	$ 1,833	$ 1,392
Property, plant and equipment	26,115	16,849
Regulatory receivable	5,168	2,709
Deferred charges	189	151
Current liabilities	(2,776)	(1,689)
Net investment	$ 30,529	$ 19,412

B. CONSOLIDATED STATEMENT OF EARNINGS

(THOUSANDS)	2006	2005
Revenue	$ 5,800	$ 3,118
Expenses	(3,610)	(1,769)
Net earnings	$ 2,190	$ 1,349

C. CONSOLIDATED STATEMENT OF CASH FLOWS

(THOUSANDS)	2006	2005
Cash used in operating activities	$ (619)	$ (355)
Cash used in investing activities	(9,324)	(7,682)
Decrease in cash	$ (9,943)	$ (8,037)

19. SEGMENTED INFORMATION

SaskEnergy operates predominantly in the following two industry segments:

Distribution – Distribution Division of SaskEnergy provides natural gas commodity and delivery services to customers in the Province of Saskatchewan.

Transportation – TransGas Limited operates a major natural gas transmission pipeline system within Saskatchewan providing open access transmission services including gathering, compression and natural gas processing to end-use customers, marketers and export producers. This company also provides natural gas storage services.

STATEMENT OF EARNINGS

	DISTRIBUTION				TRANSPORTATION		OTHER[1]		INTERCOMPANY[2]		TOTAL	
	COMMODITY		DELIVERY									
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
($ MILLIONS)												
REVENUE												
Commodity sales	386	374	-	-	-	-	3	2	-	-	389	376
Gas marketing sales	-	-	460	545	106	62	46	40	(18)	(3)	594	644
Delivery	-	-	155	160	-	-	5	3	(7)	(7)	153	156
Transportation and storage	-	-	-	-	130	134	4	4	(46)	(50)	88	88
Revenue collected for municipalities	-	-	20	21	3	7	-	-	-	-	23	28
Other	-	-	3	3	-	-	7	8	(3)	(4)	7	7
	386	374	638	729	239	203	65	57	(74)	(64)	1,254	1,299
EXPENSES												
Commodity cost of gas sold	415	420	-	-	-	-	3	2	(3)	(3)	415	419
Saskatchewan Energy Share	(20)	(54)	-	-	-	-	-	-	-	-	(20)	(54)
Net commodity cost of gas sold	395	366	-	-	-	-	3	2	(3)	(3)	395	365
Gas marketing cost of gas sold	-	-	449	539	104	59	23	6	(18)	(5)	558	599
Operating and maintenance	-	-	109	113	58	63	6	5	(52)	(56)	121	125
Interest	-	-	17	16	24	26	2	2	1	3	44	47
Amortization	-	-	26	24	25	25	2	2	-	-	53	51
Payments to municipalities	-	-	20	21	3	7	-	-	-	-	23	28
Saskatchewan taxes	-	-	3	4	3	2	1	1	-	-	7	7
	395	366	624	717	217	182	37	18	(72)	(61)	1,201	1,222
Net earnings (loss)	(9)	8	14	12	22	21	28	39	(2)	(3)	53	77

STATEMENT OF FINANCIAL POSITION

	DISTRIBUTION		TRANSPORTATION		OTHER[1]		INTERCOMPANY[2]		TOTAL	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
($ MILLIONS)										
ASSETS										
Current assets	**257**	344	**27**	24	**19**	9	**(15)**	(13)	**288**	364
Property, plant and equipment, & natural gas in storage	**408**	406	**525**	522	**61**	48	**7**	(1)	**1,001**	975
Investments & other assets	**3**	4	**1**	2	**38**	27	**(9)**	(1)	**33**	32
	668	754	**553**	548	**118**	84	**(17)**	(15)	**1,322**	1,371
LIABILITIES AND EQUITY										
Current liabilities	**261**	314	**74**	100	**46**	22	**(61)**	(41)	**320**	395
Long-term debt	**227**	245	**301**	277	**28**	21	**34**	39	**590**	582
	488	559	**375**	377	**74**	43	**(27)**	(2)	**910**	977
Equity	**180**	195	**178**	171	**44**	41	**10**	(13)	**412**	394
	668	754	**553**	548	**118**	84	**(17)**	(15)	**1,322**	1,371

[1] The Other category includes Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, Swan Valley Gas Corporation and SaskEnergy Nova Scotia Holdings Ltd.

[2] The Intercompany category includes general corporate assets, liabilities, revenue and expenses, and also reflects the elimination of intercompany transactions required upon consolidation.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Corporation accounts for intercompany sales as if the sales were made to third parties at current market prices.

The reportable segments are the major strategic business units of the Corporation. Each business unit is managed separately as it provides products and services requiring different business, technology and marketing strategies.

20. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

A. AUTHORITY

SaskEnergy is a statutory Crown corporation which is governed by *The SaskEnergy Act* and *The SaskEnergy Regulations*. The Board of Directors (the Board) oversees the management of the Corporation and holds management accountable for the Corporation's performance. Through the Chair, the Board is accountable to the Minister Responsible for SaskEnergy, who functions as a link between the Corporation and Cabinet, as well as the Provincial Legislature.

B. BOARD RESPONSIBILITIES

The Board is responsible for the stewardship of the Corporation. In carrying out this responsibility, the Board participates in the Corporation's strategic planning process each year and approves the strategic direction, budget and corporate plan. The Board also exercises its responsibility to oversee and ensure adherence to *The SaskEnergy Act*.

C. BOARD COMPOSITION

SaskEnergy's Board of Directors is representative of Saskatchewan community and industry. The Lieutenant Governor in Council, pursuant to *The SaskEnergy Act*, appoints Board members. Members possess a variety of significant attributes, including industry expertise, strategic leadership, entrepreneurial and communication skills, integrity, flexibility, sound judgment and initiative. Board members are committed to serving the Corporation, and in so doing, serving Saskatchewan people through emphasis on promoting customer service, productivity, profitability, co-operation and sound environmental stewardship.

D. COMMITTEES

The Board established the following five committees to assist in discharging specific areas of Board responsibility:

- Audit and Finance Committee
- Business Development Committee
- Governance Committee
- Human Resources/Compensation Committee
- Safety, Health and Environment Committee

AUDIT AND FINANCE COMMITTEE

Chair: Mike Chorlton

The mandate of the Audit and Finance Committee is to assist the Board of Directors in meeting their responsibilities by ensuring the adequacy and effectiveness of the financial reporting, internal controls, management information systems and risk management. In addition, it interacts directly with the internal and external auditors, and ensures that the Board is provided with financial plans and proposals consistent with the Corporation's overall strategic plan, budget and public policy objectives.

BUSINESS DEVELOPMENT COMMITTEE

Chair: George Lafond

The Business Development Committee mandate is to assist the Board in oversight of new, non-core utility functions, strategic and tactical investments and business opportunities.

GOVERNANCE COMMITTEE

Chair: Heather Heavin

The Governance Committee is responsible for the development and maintenance of SaskEnergy's corporate governance practices. Among other things, its duties include evaluating the performance of the Board and committee chairs and directors and establishing appropriate Board and Board committee structure, composition and mandate.

HUMAN RESOURCES/COMPENSATION COMMITTEE

Chair: Ralph Hesje

The Human Resources/Compensation Committee mandate is to oversee SaskEnergy's human resource strategies, programs and practices to ensure that SaskEnergy is a corporate leader in the development and implementation of proactive human resource strategies, compensation and succession planning.

SAFETY, HEALTH AND ENVIRONMENT COMMITTEE

Chair: Eldon Lindgren

The Safety, Health and Environment Committee is charged with ensuring that the Corporation proactively addresses safety, health and environmental issues, incorporates them into SaskEnergy's vision, mission and values, and has adequate and effective controls in place to monitor compliance with regulatory and statutory requirements.

E. GOVERNANCE PRACTICES

SaskEnergy's approach to corporate governance practices is substantially consistent with the guidelines set forth in the Canadian Institute of Chartered Accountants (CICA) Handbook and the Canadian Securities Administrators (CSA) National Policy 58-201 – Corporate Governance Guidelines, and National Instrument 58-101 – Disclosure of Corporate Governance Practices. The National Policy and Instrument address the key areas of responsibility for effective corporate governance, including responsibility for stewardship of the Corporation, the Board's role in working with management and the functioning of the Board. SaskEnergy's corporate governance practices are benchmarked against the National Policy and Instrument Guidelines in the following Governance Scorecard.

CSA National Policy 58-201 and National Instrument 58-101 Disclosure of Corporate Governance Practices 2006	SaskEnergy's Corporate Governance Practices	Consistent with CSA Guidelines?
1. BOARD OF DIRECTORS COMPOSITION The board should have a majority of independent directors.	There are ten individuals appointed to the SaskEnergy Board. There is a majority of independent directors.	Yes
Disclosure of significant shareholders (ability to exercise the majority of votes to elect directors):	SaskEnergy as a statutory Crown corporation does not have any issued share capital. Although CSA review of governance of controlled companies is in progress, this feature is not applicable to SaskEnergy.	Not applicable
(a) Disclose the identity of directors; and (b) Describe who is independent and the basis for the determination of independence.	Mervyn J. Simon, Chair: INDEPENDENT Vice President, Special Projects, Glencoe Resources Limited (Ceased to be a Board member – March 28, 2006) Heather D. Heavin, Acting Chair: INDEPENDENT Assistant Professor of Law, University of Saskatchewan Donald Ching, Vice Chair: INDEPENDENT President & CEO, AREVA Resources Canada Inc. Peter Bergbusch: INDEPENDENT Lawyer, Balfour, Moss (Appointed as a Board member – March 28 , 2006) Michael W. Chorlton: INDEPENDENT President & CEO, Parkland Income Fund Ralph Hesje: INDEPENDENT President, CCS Energy Services (a CCS Income Trust Company) Nadine Krenosky: INDEPENDENT Vice President, Compliance, Greystone Managed Investments, Inc. George E. Lafond: INDEPENDENT Special Advisor to the President on Aboriginal Initiatives, University of Saskatchewan Eldon Lindgren: INDEPENDENT Lawyer, Lindgren, Blais, Frank and Illingworth Florence Norman: INDEPENDENT Communications, Protection & Control Development Engineer I, SaskPower Jean Weimer: NOT INDEPENDENT Assistant to the President of CEP Union, Local 649 (company employee on leave for Union business)	Yes

<table>
<tr><th>CSA National Policy 58-201 and National Instrument 58-101 Disclosure of Corporate Governance Practices 2006</th><th>SaskEnergy's Corporate Governance Practices</th><th>Consistent with CSA Guidelines?</th></tr>
<tr><td></td><td>For the independent directors, none of them, or their "associates", have worked with or for the Corporation or have material contracts or relationships with the Corporation, or have received remuneration from the Corporation in excess of the fees and compensation as Directors and Committee members or as Directors of subsidiaries of the Corporation.</td><td></td></tr>
<tr><td>(c) Indicate whether directors are directors of any other issuer that is a reporting issuer.</td><td>Not applicable as SaskEnergy does not have share capital, and is therefore not an issuer.</td><td>Not applicable</td></tr>
<tr><td>(d) Do directors hold regularly scheduled in-camera meetings to facilitate open and candid discussion? If so, how many meetings were held in the previous 12 months?</td><td>The Board meeting procedures are such that at each regular meeting the Board allocates time on the agenda for an in-camera session whereby Management is excused from the meeting.

The Board held nine regular meetings in 2006.</td><td>Yes</td></tr>
<tr><td>(e) The chair should be independent to provide leadership for the directors.</td><td>The Board structure at SaskEnergy is such that the Chair of the Board is independent.</td><td>Yes</td></tr>
<tr><td>(f) Disclose the attendance record of each director for board meetings held in the most recently completed financial year.</td><td>There were 12 Board meetings in the calendar year 2006. The following are the attendance statistics for Board meetings:

JANUARY 1, 2006 TO DECEMBER 31, 2006

Director — Board Meetings Attended
Mervyn Simon, Chair* — 2 of 2
Heather Heavin, Acting Chair — 12 of 12
Peter Bergbusch** — 10 of 10
Donald Ching — 6 of 12
Michael Chorlton — 10 of 12
Ralph Hesje — 10 of 12
Nadine Krenosky — 12 of 12
George Lafond — 12 of 12
Eldon Lindgren — 12 of 12
Florence Norman — 11 of 12
Jean Weimer*** — 9 of 12

* Mervyn Simon ceased to be a Board member effective March 28, 2006.

** Peter Bergbusch was appointed to the Board on March 28, 2006.

*** Jean Weimer declined attendance at 3 of 12 Board meetings due to conflict of interest.

For the purposes of this report, members who attended meetings in part, were considered to be present.</td><td>Provided</td></tr>
<tr><td>2. BOARD MANDATE

The board should adopt a written mandate which explicitly acknowledges responsibility for the stewardship of the corporation which delineates its roles and responsibilities, including responsibility for:</td><td>The Board has a formal mandate with responsibility to function as stewards of the Corporation, and has the obligation to manage the affairs and business of the Corporation. While the fundamental objective of the Board is to act in the best interests of the Corporation, the Board has a responsibility to ensure congruence between shareholder expectations, corporate plans and management performance. The Board and Committee Terms of Reference are available on the Corporation's website at www.saskenergy.com.</td><td>Yes</td></tr>
</table>

CSA National Policy 58-201 and National Instrument 58-101 Disclosure of Corporate Governance Practices 2006	SaskEnergy's Corporate Governance Practices	Consistent with CSA Guidelines?
(a) Satisfaction regarding the integrity of the Chief Executive Officer (CEO) and executive and the creation of a culture of integrity;	The Board acts in accordance with the governing legislation, the Corporation's Code of Business Conduct and Ethics and the Board's Terms of Reference. In 2006, all employees, including the CEO and Executive were required to complete mandatory training on the Code of Business Conduct and Ethics. Management monitors and reports to the Governance Committee any issues arising under the Code of Business Conduct and Ethics.	Yes
(b) The adoption of a strategic planning process and approval of a strategic plan which takes into account, among other things, the opportunities and risks of the business;	One of the Board's principal duties is to provide leadership in setting the Corporation's long-range strategic direction and to approve the Corporation's overall strategic plan. The Corporation's comprehensive strategic planning process results in the review and approval by the Board of the Corporation's Strategic Plan, Annual Operating and Capital Budget and Financial Plan. The Board and Management conducted a comprehensive update to SaskEnergy's Strategic Plan in 2006 to set a new focus for strategic mandates and identified risks and opportunities associates with each.	Yes
(c) The identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks;	Executive Management and the Board identify the principal risks of the Corporation on an annual basis and directly or through the Audit and Finance Committee, monitors the Corporation's risk management programs, in addition to overseeing the implementation of appropriate systems to manage those risks. The Audit and Finance Committee meets regularly to review reports and discuss significant risk areas with internal and external auditors.	Yes
(d) Succession planning, including appointing, training and monitoring senior management;	The Human Resources/Compensation Committee of the Board annually reviews the adequacy of the Corporation's succession planning strategy, performance targets, and the performance evaluations of the Executive Officers of the Corporation. The Board supports Management's commitment to training and development of all employees.	Yes
(e) A communications policy for the corporation;	SaskEnergy is committed to the principles of transparency, openness and timeliness in communications with its shareholder, employees, stakeholders and the public. The Corporation complies with communication requirements set by the shareholder and by statute, and in 2006, the Board approved a formal external communications policy.	Yes
(f) The integrity of the corporation's internal control and management information systems;	While the Board is responsible for risk management, the Audit and Finance Committee is responsible for oversight of financial reporting, internal controls and management information and risk management systems for the Corporation. This Committee reviews the integrity of the internal control processes and financial management information systems in conjunction with the internal and external auditors.	Yes

CSA National Policy 58-201 and National Instrument 58-101 Disclosure of Corporate Governance Practices 2006	SaskEnergy's Corporate Governance Practices	Consistent with CSA Guidelines?
(g) Development of approach to corporate governance, principles and guidelines;	The Governance Committee is mandated through its Terms of Reference, to be responsible to the Board for governance of SaskEnergy, including issues related to governance and conflict of interest involving Directors and Senior Executives. The Governance Committee annually prepares an Ethics Advisor report to the Board on any issues dealt with in the preceding 12 months. The Governance Committee initiated a review project to review the principles and guidelines, roles, responsibilities, authorities and accountabilities regarding governance practices at the Corporation to benchmark those practices to national best practices. The project was concluded in 2006, with the delivery of an on-line Governance Handbook site for use by employees of the Corporation and with the publication on the Corporation's website of the Terms of Reference for the Board of Directors and its Committees.	Yes
(h) General mandate re: stakeholder feedback, and expectations and responsibilities of directors.	To facilitate feedback from employee stakeholders, the Board has adopted a Whistleblower Policy. The Whistleblower Policy provides a procedure to contact the Board. The Chair of the Board participates in a Crown Investments Corporation Chair forum conducted by the statutory shareholder, where feedback and communication is provided to all Crown Corporation Board Chairs on the expectations of the statutory shareholder. Building on the base of directors duties outlined in legislation, Terms of Reference for the Board and its Committees were reviewed and approved by the Board in 2006, bringing additional clarification to the responsibilities and duties of directors.	Yes
3. POSITION DESCRIPTIONS (a) The board should develop position descriptions for the chair of the board and chair of each board committee;	The Board Chair operates within the statutory requirements of *The SaskEnergy Act*. In 2006, the Board reviewed and approved position descriptions for the Chair of the Board, the Chairs of the Board Committees, and for Individual Directors.	Yes
(b) Together with the CEO, develop a position description for the CEO delineating management's responsibilities and approving corporate goals and objectives that the CEO is responsible to meet.	The Board has developed the Board's Terms of Reference which outline the responsibilities for the Board and Management. The Board has also approved policies for the execution of documents and expenditure authorities for the CEO and Executive Officers. These policies clearly outline the limits to their authorities and the levels for which matters must receive Board approval. The existing job description and responsibilities of the CEO has been clarified and enhanced by the creation of a CEO mandate in 2006.	Yes
4. ORIENTATION AND CONTINUING EDUCATION The board should ensure new directors receive comprehensive orientation and fully understand the role and the contribution they are expected to make; and, the board should provide continuing education opportunities for all directors.	The Governance Committee has responsibility to provide ongoing training and education to the Board in accordance with the Board of Directors Training Policy. This policy outlines the Corporation's commitment to the orientation and training of its incoming Board members and the ongoing training and industry education for current Board members. This Policy outlines the comprehensive orientation material to be provided to incoming Board members. As part of the ongoing training for Board members, the Corporation provided an industry training session and Crown Investments Corporation has facilitated additional training sessions as part of its Subsidiary Crown Directors Training Program for Board members in 2006.	Yes

CSA National Policy 58-201 and National Instrument 58-101 Disclosure of Corporate Governance Practices 2006	SaskEnergy's Corporate Governance Practices	Consistent with CSA Guidelines?
5. CODE OF BUSINESS CONDUCT AND ETHICS (a) The board should adopt a written code of business conduct and ethics applicable to directors, officers and employees of the corporation which is designed to promote integrity and deter wrongdoing. The code should address conflicts of interest, protection, proper use of corporate assets and opportunities, confidentiality, fair dealing, compliance with laws, rules and regulations and provide a mechanism to report illegal or unethical behavior.	The Board has approved and adopted a written Code of Business Conduct and Ethics (the "Code"), which is applicable to all employees, officers and directors of the Corporation. The Code, which is designed to promote integrity and deter wrong doing, is based on values of fairness and honesty, equal treatment and accountability. The Code provides guidelines on handling information of the Corporation's assets, confidentiality, conduct with suppliers and customers, business history, international business, conflicts of interest, compliance with laws and policies and reporting. Employees of the Corporation received mandatory annual training in 2006 on the Code and the Corporation's Privacy policies, which are posted on the Corporation's intranet site. The Whistleblower Policy approved by the Board to promote reporting of any irregularities was introduced and communicated to employees in 2006. In addition, Directors of the Corporation are required to abide by the Crown Investments Corporation's Directors' Code of Conduct. The Governance Committee, as the Ethics Advisor to the Board, is required to administer, monitor and enforce the Directors Code of Conduct, which includes reporting annually to the Board concerning compliance. Also, it is standard procedure that the first item on the agenda for any regular Board meeting is an opportunity for Board members to declare any conflicts of interest, or any changes to outside employment or directorships they hold which may create a potential conflict of interest.	Yes
(b) The board should monitor compliance with the code and grant any waivers required for directors and executive officers. Any waivers for a material departure from the code for any directors or officers should be granted by the board.	The Human Resources/Compensation Committee is required to monitor compliance with the Code of Business Conduct and Ethics. Any irregularities raised under the Whistleblower Policy will be reported to the Governance Committee. In addition, the Audit and Finance Committee is required to monitor the effectiveness of financial controls and receive reports of internal and external auditors on the adequacy of those controls. In 2006, there were no waivers granted by the Board.	Yes
6. NOMINATION OF DIRECTORS (a) The board should appoint a nominating committee composed of entirely independent directors, with a written charter establishing the committee's purpose, responsibilities, member qualifications, appointment, removal, structure and operations.	The Corporation does not have a separate nominating Committee. SaskEnergy's Governance Committee is responsible for annually assessing the size, composition, and required qualifications of the Board to determine whether it has the necessary constituents for effective decision making. All of the Governance Committee members are independent. The Governance Committee has authority to engage and compensate any outside advisor it determines necessary to assist with carrying out its duties. In carrying out these functions, the Board considers the advice and the input of the Governance Committee, and makes recommendations to the Corporation's statutory shareholder who is given the Legislative authority to appoint directors pursuant to the Crown Investments Corporation Crown Board Appointment Policy.	Yes

CSA National Policy 58-201 and National Instrument 58-101 Disclosure of Corporate Governance Practices 2006	SaskEnergy's Corporate Governance Practices	Consistent with CSA Guidelines?
(b) The board should adopt a nomination process which first considers the competencies and skills of the board as a whole; assesses the competencies and skills possessed by each existing director; and, identifies competencies and skills each new nominee would bring to the board, including the ability to devote sufficient time and resources to the job.	The Governance Committee is charged with assessing skills and competency for the Board and its Committees, and performing a gap analysis intended to assist achieving a balance of the skills of Board members through the appointment of new members. The Governance Committee is also responsible for the ongoing assessment of Directors, their training and skill set review. Position descriptions for the Chair of the Board and the Chairs of Board Committees and independent Directors have been developed and approved in 2006 and these will assist in determining skill training opportunities. (For reference: *The SaskEnergy Act* requires appointment of directors through Order in Council, and sets a limitation on Board's Authority to recommend candidates only)	Yes
7. **COMPENSATION** (a) The board should appoint a compensation committee composed from entirely independent directors, with a written charter to establish the committee's purpose, responsibilities, member qualifications, appointment removal, structure, operations and manner of reporting to the board.	The Human Resources/Compensation Committee is comprised of independent directors, other than Jean Weimer, who as a unionized employee on leave from the Corporation, has a material relationship, and is therefore not independent. This Director does not receive any material or minutes related to management compensation or collective bargaining, and is excluded from any Board or Committee discussion on those topics. The Corporation has appointed a Human Resources/Compensation Committee which has the responsibility to make recommendations to the Board. Written Terms of Reference have been established for the constitution and operations of the Committee, and the Committee has been given the authority to engage and compensate any outside advisor it deems necessary. Outside consultants, Deloitte and Touche, LLP were retained by the statutory shareholder, Crown Investments Corporation in 2005 to prepare a report on Crown sector compensation for executive officers, which was delivered and implemented in 2006.	No Yes Yes
(b) The compensation committee should be responsible for reviewing and approving corporate goals and objectives relative to the CEO's compensation, the CEO's performance in light of those corporate goals and objectives, and determining the CEO's compensation level based on the evaluation; as well as reviewing executive compensation prior to public disclosure.	The Human Resources/Compensation Committee annually reviews with the CEO, the performance targets and performance evaluation of the CEO and the Executive Officers. The CEO's performance based upon the requirements of the CEO Mandate approved and adopted by the Board in 2006 is assessed against the Corporation's annual objectives. The results of the CEO's performance are reported to the full Board. The Human Resources/Compensation Committee and the Board review annually all compensation payments to the Executive officers through the publication of Crown Payee reports prior to public disclosure.	Yes
(c) The compensation committee should be responsible to make recommendations to the Board with respect to Director compensation.	The Human Resources/Compensation Committee is responsible for annually reviewing the compensation for the Board members and the Chair, and recommending to Crown Investments Corporation for approval any proposed adjustments to compensation levels. Crown Investments Corporation is mandated by legislation to fix the remuneration and rate of reimbursement for expenses of directors.	Yes

CSA National Policy 58-201 and National Instrument 58-101 Disclosure of Corporate Governance Practices 2006	SaskEnergy's Corporate Governance Practices	Consistent with CSA Guidelines?
8. OTHER BOARD COMMITTEES Identify Standing Committees other than audit, compensation and nominating, and describe their function.	In addition to the Audit and Finance, Human Resources/Compensation, and Governance standing committees of the Board, the Board has appointed a: (i) Safety, Health and Environment Committee; and (ii) Business Development Committee. These Committees are comprised solely of independent members, except for the Safety, Health and Environment Committee, where Jean Weimer, who, as a unionized employee on leave from the Corporation, has a material relationship with the Corporation and is therefore considered a non-independent member. The majority of the Committee members are independent. The constitution, function and mandate of each of the Board Committees are set out in the Terms of Reference for each Committee, each reviewed and updated in 2006 and adopted by the Board.	Yes
9. BOARD ASSESSMENTS The board, its committees and each individual director should be regularly assessed with respect to their effectiveness and contribution in terms of the board or committee's terms of reference, or an individual director's position description and competencies and skills.	The Governance Committee is responsible for implementation of performance evaluations for the Board, each Committee, the Chair and individual Directors. The Committee surveys Directors to provide feedback on the effectiveness and contribution of the Board, Committees, Chairs and individual Directors on a rotational, bi-annual basis. The results are summarized and reported to the Board, as well as the Crown Investments Corporation Board of Directors. For 2006, the process consisted of the individual Board members completing the evaluation surveys on the effectiveness and performance of the Board Peers and Committees. The survey results were summarized and reported to the Board and to Crown Investments Corporation Board of Directors. The 2006 process was conducted with the assistance of an external consultant under the guidance of the Governance Committee.	Yes

SUPPLEMENTARY INFORMATION

GLOSSARY OF NATURAL GAS MEASUREMENTS

JOULE (J)
a base metric measure of energy. One J is the equivalent of the energy required to raise the temperature of one gram of water by approximately one quarter of one degree Celsius.

GIGAJOULE (GJ)
a measure of energy used to express the heating value of natural gas or of energy consumed. One GJ is equivalent to one billion J. An average home uses about 130 GJ per year.

TERAJOULE (TJ)
a unit of energy equivalent to 1,000 GJ.

PETAJOULE (PJ)
a unit of energy equivalent to 1,000,000 GJ.

CUBIC METRE (m^3)
a unit of volume measurement commonly used to express the amount of natural gas sold to consumers. The typical home uses about 3,550 m^3 of gas per year.

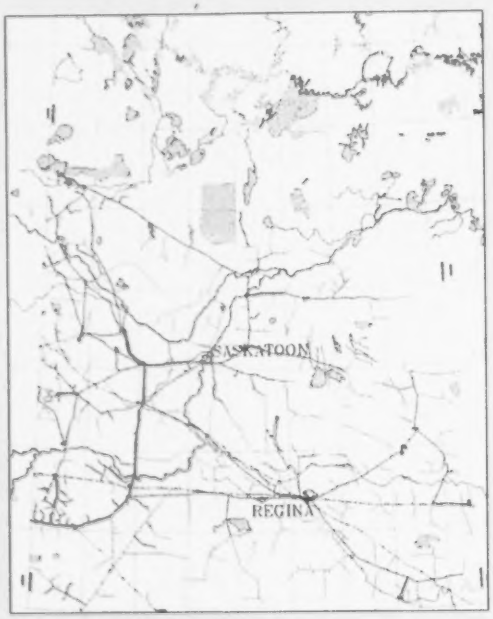
DEGREE DAYS
a unit measuring the extent to which the temperature falls below 18° Celsius. (In a normal year, the degree days are 5,685.)

NATURAL GAS VOLUME EQUIVALENTS AT NORMAL ATMOSPHERIC PRESSURE

One Gigajoule (GJ) is the volume of natural gas required to fill an 11 foot by 11 foot by 8 foot room (approximately 1,000 cubic feet).

One Terajoule (TJ) of natural gas would fill a typical professional hockey arena (approximately 1,000,000 cubic feet).

One Petajoule (PJ) is enough natural gas to fill 17 sports stadiums the size of the Rogers Centre, formerly known as the SkyDome (approximately 1,000,000,000 cubic feet).



SASKENERGY INCORPORATED
NATURAL GAS TRANSMISSION PIPELINES

SaskEnergy

1000-1777 Victoria Avenue, Regina, Saskatchewan S4P 4K5
www.saskenergy.com

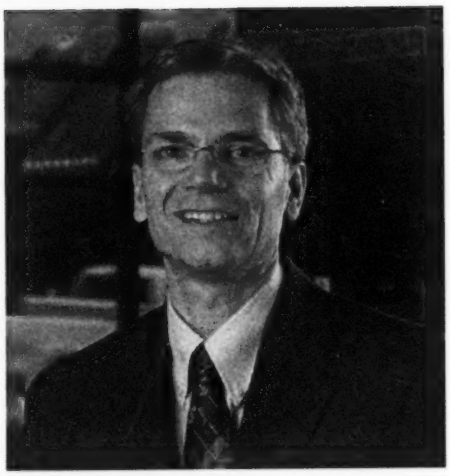
For additional copies of this year's Annual Report, please call SaskEnergy at (306) 777-9378 or visit our website.
This is part of a two-book set consisting of the 2006 Annual Report and 2006 Corporate Social Responsibility Report.

OUR FUTURE IS NOW

SaskEnergy

2006 CORPORATE
SOCIAL RESPONSIBILITY
REPORT

PRESIDENT'S MESSAGE



Success is often measured by what is achieved, not by the impact these achievements have. Although a yardstick provides an accurate representation of results; and criteria make it easier to decide which results should be achieved – these only contribute to part of the picture.

What's equally, if not more important, is the short- and long-term effects of success.

Since our company was founded in 1988, SaskEnergy and its employees have held a very clear and defined goal: to impact Saskatchewan people and communities through action. Our targets are equally distinct and outlined in the scorecards of our annual Corporate Social Responsibility Reports. But our focus is on more than just the numbers. It's on building capacity, creating opportunities, and raising ourselves to the next level of community investment where our time and resources help organizations leverage more than dollars and cents.

To achieve SaskEnergy's vision we aspire to six strategic mandates. These play a crucial role in our planning, reporting and measurement, and are developed in accordance with the highest benchmarks possible.

Community and Environmental Responsibility, as well as Engaging Employees, are the two mandates discussed exclusively in this report. Information concerning the other four mandates is contained in the main Annual Report.

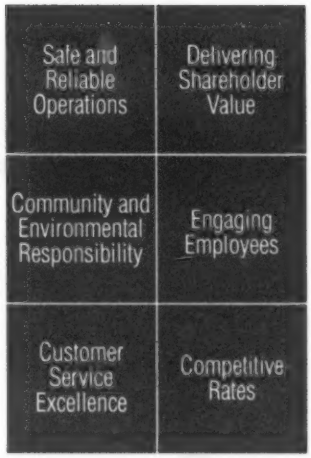
This approach begins at the grassroots level – with our employees. The men and women of SaskEnergy and TransGas live, work, and raise families in communities throughout Saskatchewan, and represent the values and characteristics that define our Province. For many events or initiatives we support corporately, we look for opportunities to engage our employees as volunteers. They are our community champions.

We also consider other ways to maximize our impact. Can we work alongside organizations, community groups, or even our own internal workgroups to not only empower other people, but also ensure our support is as effective as it could be? Can we provide other non-traditional types of support such as in-kind contributions, to create a true investment into Saskatchewan people and communities? Can we partner with others on programs that make it easier for our customers to save energy? These are just a few examples of the questions we ask ourselves to help us reach our goals as an organization.

With each passing year we also challenge ourselves to think differently, to continue to do better, and to build on our foundation of giving.

SaskEnergy's 2006 Corporate Social Responsibility Report is structured similar to past Reports, but I encourage you to look beyond the numbers and see the stories that are interwoven into our community relations philosophy. As you will see, it's not about cutting cheques or providing the largest donation of any company in Saskatchewan. It's about using our ingenuity and commitment to give back to the communities and the people of Saskatchewan.

Doug Kelln
President and Chief Executive Officer



TECHNOLOGY AND OPERATIONS GROUP
(top photo)

Dave Pahl, Jim Perfect, Simon Kostic, Konlin Stolz, Marissa Nelson-Jones, Derrick Mann, Aprameya Ambalae, Bruce Lotts.

CUSTOMER SERVICES GROUP
(bottom photo)

Debbie Brown, Chris Uhren, Barry Ell, Traci Holoboff, Christine Brossart, Heather McInnis, Marcella Pelletier, Wendy Uytterhagen, Bonnie Favreau, Darlene Exner, Vern Gorr, Gary Tolhurst, Chris Mitchell.

For more than six years, dedicated employees from TransGas have volunteered one lunch hour each week to deliver hot meals through the Regina Meals on Wheels Program.

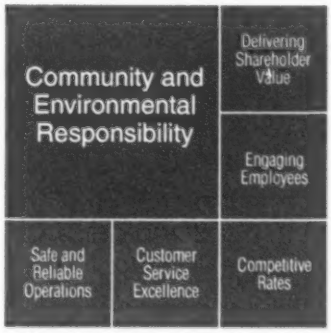
The Technology and Operations group, pictured at the top of this page, started the tradition which is now also supported by staff from TransGas Customer Services, shown below.

OBJECTIVE: Maintain leadership in corporate social responsibility and environmental stewardship.

SPONSORSHIPS AND COMMUNITY INVESTMENTS

Measures	2005 Actual	**2006 Actual**	2006 Target	2007 Target	2008 Target	2009 Target
Community relations investment ($ Millions)	1.59	**1.57**	1.56	1.46	1.50	1.50
Number of projects supported	1,271	**1,268**	1,300	1,300	1,300	1,300
Number of communities impacted	290	**307**	270	270	270	270

MEASURES

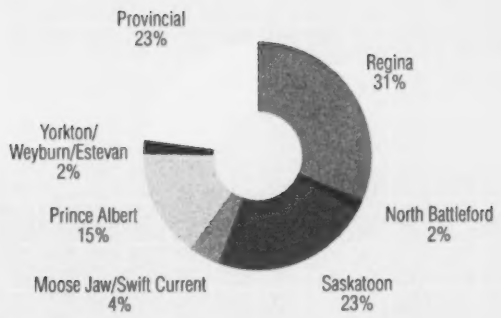


SaskEnergy uses three key measurements for our sponsorships and community investments in Saskatchewan. These provide an accurate representation of overall results, but also help illustrate our impact throughout the Province.

Our community relations investment includes all sponsorships and cash donations for the year ending December 31st. The other two measures show the ripple effect of our financial impact at the community and project level.

There is no "one size fits all" approach to community investment programs. In fact, we have three distinct initiatives in place to ensure our giving is as widespread and varied as possible: the *Share The Warmth*™ Fund, General and Aboriginal Sponsorship Funds.

Our *Share the Warmth*™ Fund was developed in 1999 to help us spread our support outside of major urban centres to other smaller communities in the Province. This Fund is managed by employee liaisons in 11 locations, and is focused on five priority categories: Education and Leadership; Community Initiatives; Saskatchewan Pride; Environmental Stewardship; and Saskatchewan Growth. In 2006, more than $124,000 was invested through this Fund, reaching 90 communities. This fund disperses sponsorships at a local level to a maximum of $2,500.



**SASKENERGY'S 2006
COMMUNITY INVESTMENT BY AREA***

**SASKENERGY'S 2006
COMMUNITY INVESTMENT BY CATEGORY***

* Does not include in-kind contributions.

More information about SaskEnergy's community involvement can be found at www.saskenergy.com/community.

SaskEnergy's community relations investment of $1.57 million in 2006 represents about 40 cents per customer per month.

Our General Sponsorship Fund is a provincially-focused program which supports larger events and activities such as the Vanier Cup, Heart and Stroke Big Bike, and the Saskatchewan Science Centre. Aboriginal cultural, educational and sporting events in the Province are supported through our Aboriginal Sponsorship Fund. In 2006, more than $900,000 was invested through the General Sponsorship Fund, while almost $400,000 was contributed to Aboriginal initiatives.

ANALYSIS

In 2006, the Royal Canadian Legion Regina Branch 001 celebrated its 80th Anniversary. In support of Saskatchewan's veterans and fallen heroes, SaskEnergy worked alongside Legion members, volunteers and other organizations to spearhead a major event in early November. The SaskEnergy "Night to Remember" Gala captured national attention for the Legion and raised approximately $45,000 to help the Legion continue as a vital and active part of the community.

For the second consecutive year, SaskEnergy's *Share the Warmth*™ Home Energy Efficiency Project (HEEP) helped Saskatchewan homeowners lower their energy costs and learn about simple and inexpensive home energy efficiency options. More than 600 volunteers came together to perform energy efficiency upgrades in 430 low-income homes in 19 communities. Participation included 175 SaskEnergy and TransGas employees, SaskEnergy Network Members, Salvation Army volunteers, Saskatchewan Institute of Applied Science and Technology (SIAST) students, and other community organizations from across Saskatchewan. With the help of our partners and volunteers, our goal is to help up to 2,500 Saskatchewan homes become more energy efficient by the year 2010.

SaskEnergy also continued to support young volunteers in 2006, through Global Youth Service Day (GYSD) – the largest youth-led volunteering initiative in the world. As the only Saskatchewan company to participate in this international event, we partnered with Volunteer Canada to encourage volunteerism among Saskatchewan youth. Twenty-one awards totalling $11,000 in three categories provided valuable seed money for selected schools and organizations to fund their winning projects – in the areas of community spirit, environmental action and volunteer leadership.

Teamwork was key to the success of HEEP. More than 600 people participated. Pictured here is the team from Meadow Lake.

SaskEnergy and Thom Collegiate in Regina partnered in a new initiative in 2006, called the TCAP (The Thom Carpentry Apprenticeship Program), together with the Saskatchewan Housing Corporation. Grade 11 students from Thom Collegiate, Winston Knoll Collegiate, and Martin Collegiate in Regina worked together to build two low-income houses.

For the first time in history the Vanier Cup was held outside of Ontario, gracing Griffiths Stadium in Saskatoon. More than 12,000 fans cheered while players kept warm on the sidelines near natural gas heaters provided by SaskEnergy. As Champion of Volunteers, SaskEnergy's sponsorship included cash and in-kind support involving the use of natural gas heaters, the SaskEnergy tent, and ceremonial flame. SaskEnergy employees in Saskatoon were also instrumental in the success of the 2006 PotashCorp Vanier Cup, making the company, and Saskatoon, proud.

In 2006, SaskEnergy became one of only a few companies in Canada to formalize an employee volunteerism policy. This new policy recognizes the valuable experience employees can gain from participating in community activities undertaken by the company. It also creates the capacity to serve those in need in our community and facilitate major events that come to our province.

In fact, SaskEnergy has developed a reputation for sponsoring volunteers at major events, such as the Tim Horton's Brier or the Saskatchewan Winter Games. We proudly support their energy and enthusiasm and, whenever possible, join their ranks with local employees who volunteer their time to these projects as well.

OUTLOOK

SaskEnergy saw a 12% increase in funding related to environmental causes in 2006. We also collaborated with the nationally recognized Nature Conservancy Centre by hosting them in our Regina head office. This non-financial support has helped the Nature Conservancy focus on additional projects such as the Caledonia property, which was acquired last year and hosts the endangered burrowing owl.

To achieve the broadest possible scope of community support, SaskEnergy has generally not financially participated in capital projects. These normally require large levels of investment.

After further review of other companies within our industry and in Saskatchewan, SaskEnergy has decided to set aside $100,000 in its annual budget for 2007 and beyond, to participate in a limited number of strategic capital partnerships for the company and the Province.

For sports and arts initiatives, in 2007 we will begin expanding our sponsorship focus. Our goals are to diversify our support and provide greater sponsorship opportunities to various groups and organizations that focus on enriching the arts and sports culture not just in one location, but throughout our Province.

We're also taking a more strategic approach to our Scholarship Program, by focusing on opportunities that not only provide a benefit to Saskatchewan students in terms of their education, but also more closely align with and support our business.

OBJECTIVE: Maintain leadership in corporate social responsibility and environmental stewardship.

ENVIRONMENTAL STEWARDSHIP

Measures	2005 Actual	**2006 Actual**	2006 Target	2007 Target	2008 Target	2009 Target
Annual greenhouse gas emission (GHG) reduction (tonnes)	11,640	**23,000**	12,000	8,000	7,000	7,000
Cumulative greenhouse gas emission (GHG) reduction (tonnes)	124,995	**147,995**	132,000	140,000	147,000	154,000

Note: The greenhouse gas drivers and targets reflect the transition from a Kyoto-driven goal to a Federal Government target for the Large Industrial Sector.

MEASURES

Our greenhouse gas (GHG) emission reduction target for the year consisted of 7,000 tonnes of vented emissions and 5,000 tonnes of emissions from gas releases. By year-end, we reduced our GHG emissions by more than 23,000 tonnes of CO_2 equivalent. Measurement of GHG emission reduction is determined through in-house measurement, engineering expertise, and the services of third-party consultants and auditors.

In 2006, SaskEnergy and TransGas exceeded our corporate GHG emissions reduction target by more than 10,000 tonnes.

ANALYSIS

Our GHG reduction for the year was solely in the area of emissions from gas releases and does not include a vented emission reduction project at the Bayhurst well field. This project was not completed by year-end, due to delays in receiving pump conversion equipment.

Following natural gas leakage measurements at a number of TransGas Compressor Stations, we reduced methane emissions by more than 20,000 tonnes of CO_2 equivalent at the Piapot Compressor Station. Other reductions were achieved through continued expansion of SaskEnergy's line heater energy conversion initiative, as well as energy savings at corporate offices and buildings.

In the summer, TransGas remediated a waste disposal site that was used between 1958 and 1991 at the Success compressor station. More than 690 m^3 of solid waste, 13 m^3 of concrete and 473 m^3 of hydrocarbon soil was removed from several waste pits and beneath two underground storage tanks and former waste disposal culverts.

Environmental assessments were also performed on more than 270 new high and low pressure pipeline projects. These reviews are regularly conducted to ensure we develop adequate environmental protection measures and fulfill the regulatory requirements of provincial agencies. Assessments include topics such as fish and wildlife impacts, location of rare or endangered species, potential land use disturbance, local soil and vegetation concerns, and potential impacts to heritage resources.

As a result of the 2006 reviews, 10 TransGas projects required some minor re-routing changes. The majority of distribution projects were not re-routed, as the proposed routes were short in length and necessary to provide natural gas to new customers.

All of SaskEnergy's new buildings are designed and modeled for greater energy efficiencies, meeting and in some cases exceeding Provincial Energy Efficiency Standards.

Since 2003 SaskEnergy has installed 52 tube heaters at selected regulator stations throughout the Province to reduce GHGs and reduce operating costs. Working on this program with Gold Wattley Technologies Ltd. (GWT) of Lloydminster, SaskEnergy has realized significant fuel gas savings. The Melville station, for instance, is reporting an average 43% reduction in annual fuel gas consumption during the past three years.

In the Fall of 2006 SaskEnergy opened a new Customer Service Centre in Weyburn. This new office, designed to be over 60% more energy efficient than a typical commercial building, uses T-8 lighting, which consumes approximately 20% less energy than standard T-12 lighting. Other features include a state-of-the-art energy efficient boiler, as well as solar reflective windows that reflect 70% of the sun's ultraviolet rays to further reduce heating and cooling costs.

OUTLOOK

Environmental activities for 2007 will impact employees, our customers, and the public at large. For example, we will expand internal communication through our corporate intranet site, staff presentations, and EnviroAction Week to help us continue educating employees about environmental protection.

Along with a study of TransGas storage and small distribution projects, comprehensive environmental assessments will occur at La Ronge as we plan to extend natural gas to this area of the Province. Remedial measures will continue at various compressor stations, and we will prepare for new environmental programs initiated by the Provincial and Federal Government.

OBJECTIVE: Maintain leadership in corporate social responsibility and environmental stewardship.

STRONG RELATIONSHIPS WITH SASKATCHEWAN BUSINESS

Measures	2005 Actual	2006 Actual	2006 Target	2007 Target	2008 Target	2009 Target
Percentage of goods and services sourced in Saskatchewan	70	**70**	80	75	75	75
Total contracts – percentage of Aboriginal labour content	13	**12**	12	13	13	14
Salvage program savings ($)	102,395	**170,367**	90,000	90,000	90,000	90,000
Purchasing savings ($)	1,326,000	**683,493**	350,000	350,000	350,000	350,000

MEASURES

As a company that provides natural gas service to more than 332,000 Saskatchewan customers, it makes sense for us to purchase our products and services in the Province. SaskEnergy's sourcing strategy has been fine-tuned for more than 11 years and allows us to help strengthen the local and provincial economy.

Our three-year projections up to 2009 are targeted at an average of 75%, as this represents a realistic expectation of purchases available in the Province. Our projections are based on a number of factors, including the availability of specialized natural gas services, products, equipment and labour in Saskatchewan.

For nine years SaskEnergy has measured the company's salvage and purchasing savings. These savings impact the company's bottom line, but at the same time protect the environment and help us further build our relationship with Saskatchewan businesses. Through salvage savings we maximize the value of goods we purchase by using programs aimed at manufacturing and refurbishing key goods used throughout our company. Purchasing savings are generated through the formal bidding process, which provides SaskEnergy with a fair, transparent and effective tool to manage major procurement opportunities and maximize cost savings.

ANALYSIS

SaskEnergy was unable to achieve our target for Saskatchewan content in 2006 because a significant number of specialized purchases were not available from Saskatchewan vendors. We were, however, able to achieve our Aboriginal content measure by awarding various contracts to Aboriginal vendors or vendors with significant Aboriginal content. We strongly believe our supplier development efforts provided additional opportunities for Saskatchewan and Aboriginal suppliers to do business with SaskEnergy. For example, over the past six years we have partnered with an on-reserve Aboriginal business to produce thousands of service swings for SaskEnergy, while providing employment for three individuals.

Savings from Salvage Operations resulted from increased productivity throughout the year, and other process improvements we've developed through our "Lean Thinking" program. Purchasing savings for 2006 are attributed to increased purchasing volumes and subsequent volume discounts.

Under the leadership of the Crown Investments Corporation of Saskatchewan (CIC), SaskEnergy and other Saskatchewan Crowns are working together to further develop relationships that not only fulfill our collective and individual business needs, but also help us continue to support the development of the Aboriginal community in our Province. In 2006, work began on an Aboriginal Business Directory, which will provide one source of information for all Saskatchewan Crowns looking for Aboriginal businesses capable of supplying goods and services to Crown Corporations.

Our Salvage Operations group has collected material such as regulators, valves, file cabinets, fax machines and vehicles for the past eight years, and has refurbished these items whenever possible. Since 1999, their efforts have saved more than $2.6 million for SaskEnergy.

OUTLOOK

SaskEnergy will maintain or even slightly increase our strategic measures wherever possible. To achieve these results, SaskEnergy, together with our vendors, will need to expand the scope of products and services. This approach provides the most promise in increasing our Saskatchewan and Aboriginal content.

As we have done for the past 11 years, SaskEnergy will continue to report on our involvement with Aboriginal businesses, and will continue looking for ways to enhance our relationship with this important sector of our economy.

Salvage Operations will focus on additional process improvements through a new pilot program involving the manufacture of pipe fittings. Besides delivering net savings and valuable employment opportunities, this program also provides production capabilities when we experience occasional delays from our external vendors.

Management will also work with Salvage Operations staff, customers, and senior management in providing more training opportunities and site visits to gain a deeper understanding of "Lean Thinking".

MICHELLE CARTER
SERVICE TECHNICIAN I, REGINA

Michelle Carter draws on her own experience in a non-traditional role to teach young girls about careers in the trades industry.

CORY PARISIEN
Personnel Advisor

Cory Parisien is a valuable member of the Human Resources team and helps make SaskEnergy's efforts to address the diversity goals of the Corporation's changing workforce. Cory is also an active member of SaskEnergy's Aboriginal Government Employees (SAGE).

ENGAGING EMPLOYEES

OBJECTIVE: Employees will be fully engaged in the success of the organization by working in a safe, healthy and rewarding environment.

REPRESENTATIVE WORKFORCE

Measures	2005 Actual	2006 Actual	2006 Target	2007 Target	2008 Target	2009 Target
Percentage of Diversity Hires	45.6	**32.6**	35.0	35.0	35.0	35.0
Representative Workforce						
- Aboriginal	10.0	**11.6**	11.0	11.5	12.0	12.5
- Women	40.2	**39.2**	40.5	41.0	41.5	42.0
- People With Disabilities	3.6	**2.8**	5.5	6.0	6.5	6.5
- Visible Minorities	1.8	**1.8**	3.0	3.5	4.0	4.0

MEASURES

Building a representative workforce has been a focal point for SaskEnergy over the past 10 years. On average we select a 35% target for external diversity hires as this will help us move closer to achieving a workforce that represents Saskatchewan's demographics.

Beyond the collective diversity number, we also break this figure into four specific categories to show how our diversity areas align with the four equity groups recognized by the Saskatchewan Human Rights Commission. These groups are considered either underemployed or minimally employed within the Province. Our targets are set through regular evaluations that occur monthly, quarterly, and annually.

For our own purposes we also track these representative workforce numbers between the five employment levels of our company: Clerical/Administrative; Trades/Technical; Management; Professional; and Executive. This identifies specific room for movement and growth within SaskEnergy and TransGas.

2006 GROUPING OF SASKENERGY EMPLOYEES BY DIVERSITY

	Women	Aboriginal	Visible Minority	People with Disabilities	Total Employees
Executive	1	0	0	0	9
Professional	13	2	2	1	46
Management	79	11	8	5	189
Trades/Technical	24	63	3	11	488
Clerical/Administrative	287	44	6	12	299

ANALYSIS

The energy industry, like many others, is facing some labour challenges. SaskEnergy's focus is on new and creative opportunities to ensure our workforce is strong today and in the future.

In 2006, tradespeople were in demand across the industry. Throughout the year companies within and outside of Saskatchewan launched aggressive recruitment campaigns to help fill their own vacancies. SaskEnergy was no exception.

Considering our goal to build a representative workforce that includes Aboriginal people, while attracting more tradespeople to our company, SaskEnergy entered into a new program with the Saskatchewan Indian Institute of Technologies (SIIT) and Gabriel Dumont Institute (GDI). Together we've built a successful new trades-based program that benefits SaskEnergy and the Aboriginal community.

Less progress was evident in the other diversity categories due to a combination of factors. In the heated labour market, candidates have a greater selection of opportunities to choose from. Although SaskEnergy experienced greater turnover in the engineering area, our overall turnover was still nominal – 3% for the year.

SaskEnergy Aboriginal Government Employees (SAGE) is an internal group of more than 50 Aboriginal employees across our company. The purpose of this group is to advocate and influence a representative workforce at SaskEnergy and TransGas. In 2006, SAGE developed a new charter and internal communications mechanisms to help them achieve their goals and build awareness among other employees.

Twelve Sask and 18 GDI graduates completed employment readiness courses and participated in an induction process to help prepare them for careers in the trades. As a result, 11 graduates were hired at the Estevan and Swift Current operations and by Enbridge.

OUTLOOK

Diversity is a broad and complex concept. Achieving and surpassing specific representative rates for selected groups based on ethnicity, gender and ability should be viewed as the first, not the final, step in an ongoing process. SaskEnergy will continue to monitor this critical information and gauge our progress, through employee surveys, exit interviews, and focus groups.

SaskEnergy is committed to shaping a future culture of inclusiveness for all employees, new and current, and we have communicated this intent within our strategic plan. Externally, the organization is focusing on strengthening its equity partnerships in an effort to attract candidates to SaskEnergy.

OBJECTIVE: Employees will be fully engaged in the success of the organization by working in a safe, healthy and rewarding environment.

INVESTING IN OUR PEOPLE

Measures	2005 Actual	2006 Actual	2006 Target	2007 Target	2008 Target	2009 Target
Lost time frequency rate (incidents per 100 employees)	2.95	**2.14 Third quartile[1]**	Top quartile[1]	Top quartile[1]	Top quartile[1]	Top quartile[1]
Preventable vehicle collision rate	2.71	**3.11 Top quartile[1]**	Top quartile[1]	Top quartile[1]	Top quartile[1]	Top quartile[1]
Competitive compensation and benefits package – 75th percentile of Saskatchewan or median of prairie market	12% below market[2]	**Not achieved for all job classifications**	75/ median	75/ median	75/ median	75/ median
Average amount spent per employee on training and development initiatives ($)	925	**1,217**	850	900	950	1,000

[1] *Established by the Canadian Gas Association (CGA) and Canadian Energy Pipeline Association (CEPA) and based on the performance of all CGA & CEPA companies in the previous year.*

[2] *On average. This percentage reflects base salary only and not total compensation, which would include salary and benefits.*

MEASURES

LOST TIME FREQUENCY RATE AND PREVENTABLE VEHICLE COLLISION RATE

Ensuring the safety of our customers is critical to our business. Our employees' safety is just as important, because they are the force behind our ability to provide safe and reliable service day in and day out.

Each year we benchmark to safe work practices and standards, and collectively work towards our goal. Our commitment to reducing our lost time frequency rate and preventable vehicle collision rate is one way we can measure our health and safety performance to that of other Canadian natural gas utilities. These rates were established for us by the Canadian Gas Association and the Canadian Energy Pipeline Association.

Measurement is based on a yearly system of tracking the lost time injuries and preventable vehicle collisions and normalizing the numbers so that company comparisons are equated to workforce size or kilometres driven.

Our health and safety performance depends on a number of critical elements present in our Health and Safety Management System: leadership and commitment; organization and involvement; planning for safe work; standards and safe practices; training; measurement and continuous improvement; and accountability. This system is designed to minimize injuries and illnesses within the workplace.

The Canadian Gas Association (CGA) benchmarks are:
Lost Time Frequency Rate – 0.67
Preventable Vehicle Collision Rate – 3.51

The lost time frequency rate is determined by identifying the total number of incidents that occurred and multiplying the number by a given standard; that number is then divided by the total number of corporate hours worked for the period. To determine the preventable vehicle collision rate, the number of preventable vehicle collisions is multiplied by a given standard; that number is then divided by the total number of kilometres driven corporately for that period.

In 2006, employees from our Human Resource Department took the "Total Rewards Strategy" on the road, visiting 10 locations across the Province to explain to SaskEnergy employees what is included in the strategy and how it is beneficial to them. Plans are underway to continue these presentations throughout 2007, with four more locations scheduled for the 1st Quarter 2007.

COMPENSATION AND BENEFITS

SaskEnergy's "Total Rewards Strategy" helps us retain our current employees and attract new employees to our organization. The specific measures we follow allow us to benchmark the compensation and benefits packages offered by similar companies in the Province.

EMPLOYEE TRAINING AND DEVELOPMENT

A culture of continuous learning helps our employees become fully engaged in the success of our organization. Our annual training and development targets are based upon investments into various learning opportunities that benefit the individual and the company as a whole. The $850 target for 2006 was selected based on the 2005 State of the Industry Report published in the *American Society of Training and Development Magazine*, which is an internationally recognized source for the latest on training and development initiatives.

ANALYSIS

LOST TIME FREQUENCY RATE AND PREVENTABLE VEHICLE COLLISION RATE

SaskEnergy's health and safety performance in 2006 improved over 2005. Lost Time Injuries and Lost Time Days were down for the year. In addition, SaskEnergy and TransGas reached a significant milestone in 2006, measuring within the Top Quartile for our Preventable Vehicle Collision Frequency Rate.

In 2006, a third-party contractor audited SaskEnergy's Health and Safety Management System, and determined that our system is overall quite strong. As a result, we again achieved safety certification.

Although the audit results were positive, lagging indicators (lost time and medical aid incidents) illustrate that further emphasis is needed to reach our corporate objective of health and safety excellence.

In 2006, the Moose Jaw Customer Services area achieved zero medical aids, zero lost time injuries and zero preventable vehicle collisions. These employees are a perfect example of our commitment to health and safety.

Success was achieved in large part through our continuous education process. A major focus was directed at Health and Safety training for all supervisors within construction and operations groups, while additional safety procedures were introduced to minimize risks to employees. At the Senior Management and Local Safety Health and Environment meetings, opportunities for improvement and increased employee participation were also discussed. In the latter part of 2006, the company developed a formal and comprehensive safety recognition program that will be formally introduced to all staff in early 2007.

COMPENSATION AND BENEFITS

External surveys helped SaskEnergy accurately compare how our compensation and benefits package compares to other offerings in the Province's job market. SaskEnergy experiences some challenges with respect to certain classifications – in part due to labour shortages in the external market place for highly sought-after skill sets – such as the engineering and the trade sectors. However, through partnerships such as the one developed with SIIT and GDI, we are making progress in hiring in the trades areas. Salary adjustments were also developed for our specific trades areas, to help us attract and retain staff and bring their salaries more in-line with the external market.

EMPLOYEE TRAINING AND DEVELOPMENT

Our flagship projects for the year included the Leadership Development Program (LDP) and Supervisory Tools and Techniques Program (STTP). Both have been offered internally for a number of years (LDP since 1998 and STTP since 1999), and are valuable to our staff. Complementing these programs are three other initiatives – the Share the Learning Program, where we provide training seats at-cost to people in the business community; Apprenticeship and Technical Trades Training; and E-Learning. E-Learning was a specific highlight for the year, as this on-line forum makes it easier for us to provide comprehensive and key training to all our employees regardless of their location. In total, nearly 150 E-Learning opportunities were used by staff in 2006.

All of our training programs combined helped us achieve our 2006 target.

OUTLOOK

LOST TIME FREQUENCY RATE AND PREVENTABLE VEHICLE COLLISION RATE

Our focus for 2007 will consist of identifying all hazards which staff may be exposed to, and providing a detailed evaluation of the underlying root causes of ongoing incidents. Safety Stand-Down Week will also help increase our focus on safety as a company and as individual employees.

SaskEnergy will build on its existing employee education initiatives with a new video outlining the importance of daily on-the-job safety. This video will reinforce the STAR Program (Stop, Think, Act, Review), underscoring everyone's responsibility to be safe.

Although we need to improve areas of our Health and Safety Management System, the biggest improvement is in the area of interdependent participation by all employees, and complete observance of every element of our Health and Safety Management System at all levels of the organization. Planning for safe operation and implementing the necessary steps to ensure it happens are critical to help us reach our health and safety performance goals.

COMPENSATION AND BENEFITS

In 2007, SaskEnergy will review its compensation philosophy. Before determining any potential changes we will consider: our current market position; which market we wish to compare with (and at what level); as well as the role of performance management.

At the same time we will continue to improve our job evaluation system to provide for an external market component. As job evaluation systems and processes have evolved since the inception of our program, many programs use a combination of internal and market comparisons. For SaskEnergy to remain competitive given the growing challenges within the labour market, an external market component must be an essential part of our overall compensation strategies.

EMPLOYEE TRAINING AND DEVELOPMENT

Our plan for 2007 is to continue investing in training and development initiatives for our employees. To that end we will also continue to offer successful programs such as the New Employee Orientation Session, Share the Learning, STTP, Technical Trades Training, and E-Learning. We will also add new important workshops, such as Women in the Trades, to encourage females to pursue trades careers. Coaching for Success will strengthen supervisors' skills in providing ongoing feedback to their employees.

SaskEnergy

1000-1777 Victoria Avenue, Regina, Saskatchewan S4P 4K5
www.saskenergy.com

For additional copies of this year's Corporate Social Responsibility Report, please call SaskEnergy at (306) 777-9378 or visit our website.
This is part of a two-book set consisting of the 2006 Annual Report and 2006 Corporate Social Responsibility Report.